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FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Truth, justice and the Russian way, Page 17

World news | Business summary

Yugoslav strikers 'may face army'

Yugoslav Prime Minister Branko Mikulic, facing widespread public dissent, warned that the army would be used if necessary to defend the country's communist system.

Following nationwide strikes over a wage freeze, he said that, if the Yugoslav constitutional system was threatened, "all means" would be used to defend it, adding: "And that includes the army."

Deputy Defence Secretary General Milan Daljevic said in a newspaper interview the army could not ignore what was happening in society but would *not* try to act on its own. Harsh reality, Page 2

Tutu talks to ANC

Leaders of South Africa's main opposition guerrilla organisation, the African National Congress (ANC), have rejected the possibility of a ceasefire suggested by Archbishop Desmond Tutu in his *first* official talks with the ANC. Page 3; Worrall's campaign, Page 18

Aquino sees threat

President Corazon Aquino said last week's bombing of the Philippine Military Academy was the greatest threat to her life since she became president and vowed vengeance against those responsible. Page 3

Gulf war peace call

King Hussein of Jordan, after talks with Egyptian President Hosni Mubarak, called on Iran and Iraq to end their war and start peace talks. In Iran, Iraqi aircraft raided Ardeshir airfield, breaking a month-long lull in action against Iranian economic targets.

Paris protest

Tens of thousands of people marched through Paris to protest against plans by France's right-wing Government to cut social security benefits.

Greek cell suicide

General Odysseas Angelis, a former high-ranking official in the military junta which ruled Greece from 1967 to 1974, hanged himself in his prison cell near Piraeus. Angelis, 75, was serving 20 years for treason and sedition.

British plot inquiry

Former British Labour Prime Minister James Callaghan said he would tell the Government about his 1977 inquiry into the alleged plot to destabilise the Labour Government of Harold Wilson in 1974, described in a banned book by a former top security agent.

Students protest

Spanish high school students plan to join university colleagues in demonstrations this week to demand education reforms, including a state takeover of all private schools.

Soviet official jailed

A former senior official in the Soviet oil industry has been jailed for taking bribes. The Soviet Supreme Court bulletin said Talgat Khuramshin also had his property confiscated.

Zimbabwe talks

Nicaraguan Foreign Minister Miguel d'Escoto is in Zimbabwe for talks with Zimbabwean Foreign Minister Witness Mangwende on the political situation in southern Africa and US involvement in Nicaragua.

Taxing trek

More than 5,000 people completed a week-long protest march across northern Italy to call for drastic reductions in taxes, including a cut in the top rate of personal tax from 62 per cent to 35 per cent.

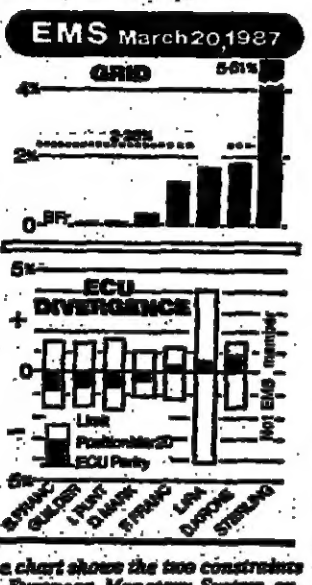
Investment warning on Latin America

INTER-AMERICAN Development Bank warned today that economic growth in Latin America could not be sustained unless there was new investment to modernise and expand production capacity. Page 18.

HONG KONG'S luxurious Mandarin Hotel is worth HK$1.55bn ($200m), according to valuations released at the weekend as part of a prospectus of the Mandarin Oriental *Hotels* group, to be floated in April by its parent, Hongkong Land Properties. Page 22

EUROPEAN *Monetary* System: trading was relatively subdued in the EMS last week. This reflected the success of central banks in keeping the dollar steady and confined to a narrow range. Consequently, there was no pressure on the weaker currencies, and the only real volatility centred on sterling, which continued to benefit as a result of foreign demand for UK government stock and equities.

EMS March 20, 1987



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

PAN AM, parent company of US international airline, lost $462.8m after tax in 1986 after suffering $85m in special charges in fourth quarter. Page 19

AMAX, international mining group which made its first profit for five years in 1986, plans to raise almost $300m through a common stock offering in the US and overseas. Page 19.

HUDSON'S BAY, debt-laden Canadian retail, property and energy group, returned to the black last year after four years of losses thanks to a sharp improvement in one department store chain. Earnings before extraordinary items totalled C$33m ($25m) compared with a C$9.1m loss in 1985.

AMERICAN Telephone and Telegraph (AT&T) and its European partner Philips have modified the structure of their consortium bidding for control of Compagnie Générale de Constructions Téléphoniques (CGCT) to comply with French Government's privatisation rules. Page 22

PETRONAS, Malaysian national oil company, recorded pre-tax profits of 6.52bn ringgit ($2.6bn) for year ending March 1986, a 9.4 per cent decline over profits in 1985.

NORANDA, metal mining and forest products group, is going ahead with a C$125m ($96m) sulphuric acid plant at its copper smelter in north-western Quebec following last month's settlement of labour problems at the smelter.

BANCA d'America e d'Italia, 98-branch Italian bank which West Germany's Deutsche Bank acquired last December from Bank of America, has announced a sharp drop in 1986 net profit. Page 19.

Delors sees stronger EMS as way forward

Quentin Peel interviews the President of the European Commission to mark the 30th anniversary of the Treaty of Rome

COMPLETE liberalisation of all capital movements between the major economies of the EEC – planned by 1992 – will not be possible without substantial reinforcement of the European Monetary System, according to Mr Jacques Delors, President of the European Commission.

And the ambition of completing a single, frontier-free internal market by that date will not be feasible without the entry of sterling into the exchange-rate mechanism of the EMS, he said.

In an interview to mark the 30th anniversary of the signing of the Treaty of Rome on March 25, Mr Delors spelt out his ambitions for the Community which it established – including ever-closer economic and monetary co-operation; a common research strategy; a fairer and more reliable system of financing and spending; and gradual, rather than radical, reform of the Common Agricultural Policy.

He intends to present broad ideas for the next phase of capital liberalisation, and the reinforcement of the EMS, at the informal meeting of EEC finance ministers in Belgium next month.

He warned, however, that such a radical step would bring with it a range of problems to be dealt with simultaneously – such as harmonising banking regulations; taxation affecting financial institutions; controlling speculative capital flows; and providing genuine cross-border freedom for financial services.

"Without a reinforcement of the EMS, we have not got the means to monitor and to regulate what is happening in the capital markets," he said. "Liberalisation of capital movements and reinforcement of the EMS must go hand in hand."

His remarks would seem to be directed particularly towards West Germany, where support for freedom of capital movements is greatest, combined with strong resistance to harmonising banking regulations, opening its own financial service sector to outside competition, and any form of central regulation reducing the independence of the Bundesbank.

In another interview, with a Spanish newspaper, Mr Delors lamented that "the West German Government lacks the same interest in the construction of Europe now that it had in former years."

As for British enthusiasm for the ambition of completing the Common Market, he said: "I cannot conceive of the achievement of a common financial space without the entry of the pound into the EMS exchange rate mechanism. It is a big currency with a large market, not like the Greek drachma or the peseta."

He expressed some confidence, however, that Mrs Margaret Thatcher, the British Prime Minister, would make the move in the foreseeable future.

Mr Delors defended his own latest package of proposals for radical reforms – including doubling social and regional spending over five years; "stabilising" spending on the Common Agricultural Policy; and seeking a substantial increase in contributions from the member

Continued on Page 18

Pomp and ceremony for EEC anniversary, Page 3; European nations resume contacts with Damascus, Page 4

Mr Jacques Delors

Thomson and SGS poised to merge microchip activities

BY PAUL BETTS IN PARIS, TERRY DODSWORTH IN LONDON AND ALAN FRIEDMAN IN MILAN

THOMSON, the French electronics group, and SGS, the Italian state-owned microelectronics concern, are poised to create Europe's second-largest semiconductor company through a merger of their microchip activities.

The historic transnational merger, which would create a semiconductor manufacturer with combined worldwide sales of more than $800m and a total workforce of just over 19,000, is now entering the final stages of negotiation.

The deal will require the approval of both the French and Italian governments but was given a green light in Rome late last week by both IRI and Stet, the state holding groups which control SGS. According to a senior official, the agreement could be announced at the start of next month. Already several Italian politicians have praised the planned SGS-Thomson merger as a major example of European industrial co-operation.

In Paris Thomson finally acknowledged that talks with the Italians had reached an advanced stage. Until now, neither side has been willing to admit the existence of the negotiations although two months ago the companies announced a joint project to develop an advanced super-memory chip.

The Thomson-SGS merger, to be accomplished through the formation of a joint holding company, is expected to include all of the semiconductor manufacturing interests of the two groups except for Thomson's defence microelectronics division.

Among European microchip producers only Philips of the Netherlands would be larger in sales terms than the Thomson-SGS combination. Last year Thomson's semiconductor business was the fifth ranking in Europe with 5.6 per cent of the market while SGS ranked sixth with 4.5 per cent. The merged SGS-Thomson concern would rank just behind Philips, which had 14.8 per cent of the European market last year, and would leapfrog ahead of Texas Instruments (9 per cent) and Motorola 7.8 per cent), both of the US, and Siemens of West Germany (6.6 per cent).

In Italy it is being said that Mr Pasquale Pistorio, the ebullient and hard-driving SGS managing director, is likely to be appointed to run the combined business. Mr Pistorio, like his counterpart at Thomson, has stressed frequently that his company on its own is too small to compete in the world market.

While declining to discuss terms of the merger, Mr Pistorio said in an interview that, "If you want to be a broad-range supplier offering multi-products and serving international markets, then you need annual sales of at least $1bn." This is the "critical mass" which Mr Pistorio said he has been aiming at since taking over at SGS in 1980.

Officials say the merger plan has become more urgent in the light of the difficult conditions in the world semiconductor market. SGS and Thomson have each run up heavy losses in the past year. SGS more than doubled its loss to around $50m on sales of $375m.

Thomson's semiconductor loss in 1986 is expected to have totalled around $33m on sales of $436m. The French company is faced with increasing reluctance on the part of the conservative Government to continue injection state funds into its semiconductor business.

Agreement on the merger seems complete in most respects, with the precise shareholding structure of the company said to be the main outstanding issue.

The Italians maintain in private that the Thomson-SGS venture will be on a 50-50 basis while the French said at the weekend that two other shareholding "scenarios" were possible. Under one of these the Olivetti office *automation* group would have a 2 per cent minority stake while under the other 20 per cent of the joint concern would be in the hands of other European chip makers.

The two companies have extensive interests in Western Europe, but both have recently been moving into overseas manufacturing. SGS has recently brought on stream a large plant in Singapore and is planning to begin production at its Arizona plant when the market permits.

CGCT bid modified, Page 22

SEMICONDUCTOR SALES IN EUROPE (1986)

Company	Revenues ($m)	Market share
Philips	802	14.8%
Texas Instruments (USA)	498	9.0%
Motorola (USA)	425	7.8%
Siemens	357	6.6%
Thomson	302	5.6%
SGS	244	4.5%
National Semi Conductor (USA)	238	4.3%
ITT (USA)	215	3.9%
Intel	214	3.9%
NEC (Japan)	158	2.9%

'Euroterrorism' arrives in Italy

BY JOHN WYLES IN ROME

ITALY was yesterday adjusting to the fact that a new generation of Red Brigades terrorists, this time having links with their French and West German counterparts, has emerged with murderous intent against politicians, members of the armed forces and other symbols of the state.

The initial conclusion of the Italian authorities is that the shooting on Friday evening in a suburb to the north of Rome of General Licio Giorgieri marks the arrival in Italy of "Euroterrorism." As director general of the Ministry of Defence's department for aerospace and missile procurement, General Giorgieri, 62, was something of a counterpart to General René Audran, the French armaments procurement officer killed by Action Directe in January last year.

After a round of meetings with the security services at the weekend, the Minister of the Interior, Mr Oscar *Luigi* Scalfaro, said: "Everything points to the theory that the assassination of General Giorgieri was decided outside Italy and was carried out by professional killers. This has the mark of European terrorism."

The general's car, driven by a conscript, was halted by two people on a motor cycle, their faces hidden by crash helmets. They fired six bullets into his chest and neck through the back and rear side windows. The motor cycle was later found abandoned a short distance away.

Responsibility was claimed in an anonymous telephone call by the "Fighting Communist Union" – a difference in name and possibly in organisation from the "Fighting Communist Party," which claimed responsibility for the murder last month of two policemen during a robbery from a post-office van.

According to newspaper reports, magistrates and police believe that the assassins might belong to the same group as three terrorists arrested after a gunfight in Rome in January. The subsequent discovery of a carefully camouflaged Ford transit van on the Via Appia Antica has led to the theory that the group was originally preparing a kidnapping of a politician or of General Giorgieri himself.

Recent discoveries by French police are thought to have confirmed systematic contacts between Red Brigades groups and Action Directe. A team of Italian investigators is due in Paris today to discuss the evidence.

Having conquered the Red Brigades of the 1970s the police and the security services now, apparently, have to begin again trying to identify and possibly infiltrate the new terrorist groups.

Libya threatens France, Page 2

Moscow says US offer of arms pact was a bluff

BY PATRICK COCKBURN IN MOSCOW

THE SOVIET Union has accused the US of backing away from an agreement on the abolition of medium-range nuclear weapons in Europe.

Mr Viktor Karpov, head of the disarmament department of the Soviet Foreign Ministry, said yesterday that there was mounting "evidence that the United States does not wish in reality the elimination of medium-range missiles in Europe, that the 'zero option' was a bluff from the very outset."

The "zero option" is the US offer to abolish land-based medium-range nuclear weapons in Europe, the Soviet Union keeping 100 warheads in the Asian part of the country and the US a similar number on its territory.

In an interview with Izvestia, the Soviet evening newspaper, Mr Karpov said that an agreement on eliminating European-based missiles could be reached in three or four months or at most five or six, but this "takes the wish and goodwill from both sides."

The pessimistic tone of Mr Karpov's remarks underlines Soviet concern that Washington now regrets having originally offered the original "zero-zero option" on arms control.

Mr Karpov said that at the Geneva talks the US delegation had proposed the medium-range Pershing-2 missiles be converted into shorter-range weapons.

"This would mean that all the 108 Pershing rockets would in practice remain in Europe – with the preservation of the facilities for their maintenance," he said. The US negotiators had also proposed that cruise missiles be moved offshore to ships and submarines, Mr Karpov added.

The Soviet Union is prepared to dismantle all its medium-range missiles in Europe, he told the interviewer.

If there were legal difficulties preventing the access of inspectors to the premises of private enterprises involved in producing missiles, then the law should be changed, Mr Karpov said.

Soviet officials now think that medium-range nuclear weapons offer the only chance of an agreement on arms reduction in the remaining two years of Mr Ronald Reagan's presidency.

They also evidently believe that Mr Reagan has been moving away from any agreement on strategic nuclear weapons and the strategic defence initiative since the Reykjavik summit.

British Prime Minister Margaret Thatcher today flies to France and West Germany for talks with President François Mitterrand and Chancellor Helmut Kohl ahead of her five-day visit to Moscow starting on Saturday. Today's talks are at the suggestion of Mr Mitterrand for discussions on arms control before her meetings with Mr Mikhail Gorbachev, the Soviet leader. Page 18

China's FT may be red but it's not pink

By Robert Thomson in Peking

THE Financial Times of China is well-connected. The country's leader, Deng Xiaoping, provided the calligraphy for the masthead while Madame Chen Muhua, Governor of the People's Bank of China, the central bank, wrote a front-page story for the first edition.

The Peking-based newspaper, which claims to be China's first specialist financial journal, also has what *it* says is an *unintentional* connection with the Financial Times of London. Not only are the names of both the same, but, beneath the calligraphy of Deng, the English title of the paper is in the same typeface as this newspaper's title, and an accompanying logo has "FT" at its centre.

Li Jianhua, the editor-in-chief, said the similarity is nothing more than a coincidence. As he explains it, the paper's printers have only a few English typefaces from which to choose, and they just happened to pick the same one.

"At first we considered calling ourselves the Financial Daily, but since we are not yet a daily paper, we called it the Financial Times. We had also considered the China Financial Paper, but this name is not very good," Li said.

The newspaper published a trial issue last week, in which Madame Chen urged from the front page the editors to "strive to run well the Financial Times." After the paper has its formal launch on May 1, it will be published twice weekly, with the expectation that it will become a daily after proving its worth.

Li has few financial worries as launch costs are to be covered by China's eight most influential financial bodies: the People's Bank, the Bank of China, four other leading state-run banks, the China International Trust and Investment Corporation (Citic), which is the government investment arm, and the People's Insurance Company of China (PICC).

Each of the institutions has a seat on the newspaper's board, and overseas staff of the Bank of China will work as foreign correspondents. Li, previously an editor on the state-run Economic Daily, does not think he will have any problems if harsh judgment is passed in print on his backers: "If criticism is needed, we will do it. Our country supports criticism and self-criticism."

The initial print run will be 150,000, and the editorial expectation is that it will soon rise to

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China's national people's congress, Page 3

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Richard Giordano, British Oxygen chairman talks to Christian Tyler Page 14

Bonn coalition facing energy policy dispute

BY DAVID MARSH IN BONN

WEST GERMANY's coalition government is facing up to a big clash over energy policy as a result of pressing demands to raise subsidies for the country's embattled coal industry.

The coal subsidies issue has provoked a fierce row among the country's federal states (Laender) over the future of a programme due to run until 1995 to guarantee coal sales to power stations.

It is also inflaming regional and political divisions in the country over the role of atomic power.

Under West Germany's dual strategy of relying roughly equally on both coal-fired and nuclear power stations for electricity generation, right-wing governed states with a high proportion of relatively cheap nuclear-generated electricity such as Bavaria are becoming increasingly restive. They complain that they are footing the bill for uneconomic coal mines in industrialised regions ruled by the left.

Conservative-controlled states voted last Friday against a proposal from Mr Martin Bangemann, the Economics Minister, to raise sharply the standard 4.5 per cent levy on electricity sales designed to guarantee coal jobs.

Therefore, the centre-right coalition will have to draw up compromise proposals over the levy to prevent the collapse of the financial system supporting coal.

The so-called "coal-pfennig" system sets a levy on electricity customers' bills to compensate electricity generating companies which use expensive German coal to fire their power stations.

This is part of arrangements under which German electricity utilities have undertaken to consume between 40m and 45m tonnes per year of anthracite up to 1995, accounting for about half of the coal industry's current production.

The levy, which is meant to iron out the price difference between German-mined coal and heavy heating oil available on the international market, was raised to 4.5 per cent from 3.3 per cent last summer. The rise was kept small to avoid angering electricity consumers ahead of the January general elections.

However, in view of the sharp rise in the Deutsche Mark and the weakness of international oil prices, experts calculate that the levy would need to total more than 10 per cent to balance the books of the subsidy fund.

Mr Bangemann has wanted to increase the levy to about 7 per cent, which would bring in about DM2bn of extra revenue for the subsidy fund. The remaining amounts needed to plug the shortfall would be borrowed from banks.

However, states controlled by the conservative Christian Democratic Union (CDU) and Christian Social Union (CSU) parties said last Friday they would block the move unless Social Democratic Party (SPD) states took a more constructive attitude towards atomic energy.

Nigeria modifies foreign exchange auction system

BY MICHAEL HOLMAN

THE Nigerian Central Bank has announced changes to the country's foreign exchange auction system, apparently in an effort to stem the steady depreciation of the Naira.

Under the system, introduced last September as part of an economic reform programme backed by the International Monetary Fund (IMF), the available foreign exchange has been auctioned by the central bank each week, and the rate determined by the bids from the commercial banks.

The Naira has depreciated 62 per cent against the dollar since the auctions began. Last week the rate was set at 4.0 Naira to the dollar ■

In a statement issued at the weekend, the central bank said that the official value of the Naira would continue to be determined by what is called the "marginal rate" — that is, the bid which exhausts the foreign currency on offer.

But at future auctions, said the statement, banks bidding for foreign exchange would have to pay the rate they offered, and not the marginal rate.

The effect of the change is to discourage banks who have been bidding high in order to be successful — but knowing that they would only have to pay the marginal rate. The central bank also announced that the auction be held fortnightly

Reagan aide optimistic on US-Soviet summit

By Lionel Barber in Washington

MR HOWARD BAKER, the newly-installed White House Chief of Staff, yesterday expressed optimism about a summit meeting this year between President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader.

Paying tribute to what he described as favourable changes in the Soviet position on a range of arms control issues including medium-range nuclear missiles and the American strategic defensive, Mr Baker said: "It would be likely that Ronald Reagan and General Secretary Gorbachev will get together. I hope soon."

Mr Baker's remarks match earlier comments by Reagan Administration officials. However, one of Mr Baker's primary goals since becoming White House Chief of Staff is to deflect attention away from the all-consuming Iran arms scandal, which has hobbled the Reagan presidency over the past four months.

In a further conciliatory gesture, Mr Baker left open the question of whether the 1972 ABM treaty allowed wide-ranging testing and deployment of SDI, the partially space-based anti-missile shield known as Star Wars.

Mr Baker said on US television that it was a "debatable issue" whether the ABM treaty allowed a broad or narrow interpretation and urged the US Congress to shelve the issue until after Mr George Shultz, the US Secretary of State, visits Moscow next month.

Mr Shultz's trip has been seen as a possible pathfinder for a superpower summit this year in Washington, where a treaty to eliminate all medium-range missiles in Europe could be signed by Mr Reagan and Mr Gorbachev.

Mr Baker said he was encouraged by changes by the Soviets offer to decouple the SDI issue from an agreement on intermediate nuclear forces. He said there was a "good possibility" that Mr Gorbachev would go to Washington, but added: "I have no concrete evidence that a summit is imminent."

Turning to domestic issues, Mr Baker said the President was still opposed to raising taxes as a means of reducing the US budget deficit. Though Mr Baker advocated raising taxes in 1985, when he was a US senator, he declined to say whether his advice to the President was to shift position. Democrats this weekend intensified their pressure for a tax rise

Patrick Blum reports on the wave of labour unrest provoked by a wage freeze

Yugoslavia wakes up to harsh reality

FEELINGS continue to run high in many parts of Yugoslavia against the Belgrade government's recently imposed wage freeze despite warnings of firm action against protestors.

The wage freeze has caused an unprecedented wave of labour unrest and strikes. In Slovenia and Croatia, the country's two northern and most developed republics, trade unions—under pressure from angry workers—have been compelled to denounce the moves in unusually forceful terms. They have been supported by managers who argue that the measures penalise firms indiscriminately regardless of their performance.

The measures have also stirred nationalist feelings and local resentment towards Belgrade, the country's capital as well as that of Serbia. "The problem at the moment is that the largest republic (Serbia) is trying to solve everything from its point of view," says Mr Emil Pintar, a Sloven Government official in Lubjana.

Trade unions and politicians in Croatia have been quick to blame the unrest on clumsy and high handed interference from Belgrade.

The Government admitted last week that the current legislation freezing wages at the level prevailing during the fourth quarter of last year and pegging pay increases to gains in productivity was unfair on some enterprises.

On Friday it sought to diffuse the crisis with the announcement of a price freeze on many basic goods and foods, but new protests are expected as more companies cut their workers' pay in accordance with the regulations.

The Government's subsequent announcement on Saturday of substantial increases in petrol and gas prices and a stern warning by Mr Branko Mikulic, the Prime Minister, against the strikers, could further exacerbate tensions.

The "Intervention Law" on wages, as the regulations are known, was pushed through last month as part of Government efforts to tackle an increasingly precarious and rapidly deteriorating economic situation. Few people question the need for urgent action but the manner in which the law was introduced, its timing and its content have caused considerable resentment. That it was followed by steep price rises of basic foods fuelled the discontent.

A cartoon last week in Vercenji List, a popular daily newspaper from Zagreb, vividly expressed public feelings about the law, at least in Croatia. It showed an unsuspecting worker—spanner in one hand and pay packet in the other—being pushed forward by a smiling official towards a street corner round which waits another official wielding a large club on which is written "intervention measures."

Opposition to the law has been strongest in Croatia and around Zagreb, its capital, although there have been widespread and spontaneous strikes, go-slows and factory meetings throughout the country.

Some small demonstrations took place, although most of the protests have been held within the work place. Journalists on Danas, a Croatian current affairs weekly, say that the unrest had not been limited to industrial workers, but that doctors, teachers and other

white collar workers have also gone on strike.

Discontent has been firmly focused on the Federal Government's wages policy but despite calls for the law to be rescinded or substantially amended few people expect this to happen.

Prof Marjan Senjur, dean of the economic faulty in Lubjana, and an advocate of economic and political reform says that resistance to the law was to be expected and that reforms will be inevitably meet opposition.

The government must stick to its guns, he argues. "They have to keep cool heads. If they pull back they will lose all credibility."

Mr Milivoj Samar, a member of the Slovene Government and the president of its social and economic planning committee, says that "the loaf is getting smaller" and that people find it difficult to adjust to the fact that their standards of living will have to drop.

He is convinced that the law will help stabilise the economy, but not everyone is as optimistic. Mr Stanislav Valant, executive vice-president of Ljubjanska Banka—a leading Slovene bank—suggests that the law may have the wrong effects. "It's a restriction and people are tired of restrictions. They would rather have incentives."

The government was on the right track until late 1985 but it lost control last year, he says. He would like to see the Government raise interest rates and devalue the dinar—the Slovenian business is pressing for a 25 per cent devaluation—to encourage exporters, savings and investment. The dinar's high value discourages exporters, he says. "Some enterprises find it is almost a kind of punishment to export."

A new social compact on wages and prices will be put into effect in July and most people expect that the government will introduce more and possibly tougher economic reforms.

"We have been living in a dream. Now the reality is catching up and we're going to have some difficult years," said a young ship-building engineer on his way to Pula, an Adriatic port, on the train journey from Zagreb.

He is in a more fortunate position than many of his compatriots. He has a good job with a well-run company that has a successful export record.

"We have to be competitive internationally so we can't play about changing prices all the time like companies which work only on the home market. We have work for at least three years."

Faced with the economic crisis many Yugoslavs are questioning their own ideas and their economic system with much talk of "the market economy."

"The strikes have proved that Yugoslavia cannot come out of the crisis without fully implementing a market economy," says Mr Marinkovic Gojko, editor of Zagreb's Danas.

Professor Senjur says: "The idea that enterprises can close down and that workers can lose their jobs is new." However, he adds more cautiously that the idea of the market economy is the expression of a hope to "escape from administrative socialism. But we've been struggling to escape for 20 years."

Libya threatens France after Chad setback

COLONEL Muammer Gadaffi of Libya has again threatened France with reprisals after his troops suffered a new setback in northern Chad, writes Paul Betts in Paris.

The Libyan leader warned France, which supplies military and logistical support to Chad, that it could face terrorist actions in its own colonies in the Pacific and Caribbean where he claimed local populations were oppressed by Paris.

Col Gadaffi's latest threats reflect the increasing difficulties Libya is facing in the northern part of Chad in countering the offensive launched by President Hissene Habre three months ago to oust the Libyans from the north of the country.

Call to lift EEC research veto

BY QUENTIN PEEL IN BRUSSELS

BRITAIN, West Germany and France, the three leading net contributors to the EEC budget, are facing growing pressure to lift their effective block on a five-year framework programme for research co-operation.

European industrialists, in the shape of Unice, the union of employers' federations, last week joined forces with the European Parliament and the European Commission in urging a decision by research ministers this week.

Action on the Commission's proposals for a Ecu 7.7bn (£5.5bn) overall programme, supposed to have started last January, has been held up through three meetings of EEC research ministers. Officials in Brussels are increasingly concerned that individual programmes, like the successful Esprit studies into advanced information technology, could be affected by the delay, putting at risk the jobs of as many as 3,000 researchers.

The European Parliament has also effectively stopped the implementation of any new research programmes, like the Race scheme for joint research into advanced telecommunications, by refusing to deliver any opinions until the research ministers reach a decision on the framework programme.

Unice last week added its voice to that of the parliament, saying that a decision by the Council of Ministers was indispensable if the momentum of industrial co-operation was not to be brought to a standstill."

The industrialists gave their grudging support to a Belgian compromise proposal which would reduce the total value of the framework programme from Ecu 7.7bn to Ecu 5.7bn, with Ecu 900m in cuts and a further Ecu 1.1bn left to be spent within the current budget.

Until now, the British, French and West Germans have given little sign that they are prepared to shift from a figure of only Ecu 4.2bn for the five-year cash envelope. The money is not committed unless individual programmes approved absorb it all.

The research and technology committee of the European Parliament has publicly castigated the three member states

Oil price drop forces Alberta to raise taxes

LOW OIL and gas prices have forced Alberta, Canada's main energy producing province, to adopt a stringent fiscal austerity programme, including hefty tax increases, writes Bernard Simon

Confronted by a C$3.2bn budget deficit, the provincial government has raised personal taxes from 43.5 per cent to 46.5 per cent of federal rates. Company taxes will rise by a third to 15 per cent.

A duty will be levied for the first time on motor fuels, and a 5 per cent tax will be added to hotel bills in time for next year's winter Olympics

Provincial government revenues from the oil and gas industry have fallen by C$2.4bn in the past year.

Dukes takes liberal line in Irish politics

BY HUGH CARNEGY IN DUBLIN

MR ALAN DUKES, the lofty economist elected on Saturday to succeed Dr Garret Fitzgerald as leader of Ireland's Fine Gael Party, wasted no time in committing himself to the liberal path of his predecessor in both social and economic policy.

"I would certainly want to build the party from the position Garret brought it to. We have been very successful in opening up debate in Ireland over the past 10 years," said Mr Dukes, who will be 42 in April. He defeated Mr Peter Barry, the former Foreign Minister, and Mr John Bruton, former Finance Minister, in a ballot of Fine Gael parliamentarians.

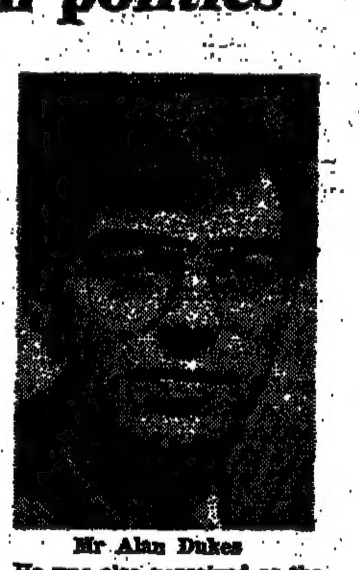
The 6ft 5in tall Dubliner, who entered the Dail (lower House) only six years ago, was the candidate closest to the reforming style of Dr Fitzgerald. He shares the same concern, though with less passionate compulsion, to build a more pluralist society in the predominantly Roman Catholic Republic, pursue reconciliation in Northern Ireland and get the debt-heavy economy back on a stable footing.

Mr Dukes reaffirmed Dr Fitzgerald's promise made after Fine Gael lost the February election to support the minority Fianna Fail government's budget on March 31 on condition it did not imply further deterioration in the public finances.

He said Fine Gael would press the new government to implement fully the Anglo-Irish agreement on Northern Ireland. The agreement, signed in 1985, was the principal achievement of Dr Fitzgerald's premiership but originally came under strong criticism by Mr Charles Haughey, the new Prime Minister, for making too many concessions to the British side.

Curiously, the voting figures among the 82 electors on Saturday were kept secret, even from them, by the two tellers, who included Dr Fitzgerald. But Mr Duke's supporters believerd he won a majority on the first count thanks to strong support from the younger generation of backbenchers anxious that the party should not revert to more conservative leadership after Dr Fitzgerald's resignation.

In Mr Dukes' favour was his popularity within the party at constituency level, his youth and his television and parliamentary debating skills.



Mr Alan Dukes

He was also perceived as the person best equipped to confront the new Progressive Democrats, whose strong brand of free-market economics and social liberalism won over many Fine Gaelers at the election. A top priority for the new leader is to rebuild the party after its hefty February defeat in time for a new election which some believe coul dcome before the year is out.

Mr Dukes' background underlines his image as a modern leader unfettered by traditional family party loyalties so prevalent in Irish politics. His father was a senior civil servant. He trained as an economist at University College, Dublin, joining the Irish Farmers' Association (IFA) as chief economist in 1967.

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OVERSEAS NEWS

Chirac to give go-ahead for Disneyland park

BY PAUL BETTS IN PARIS

MICKEY MOUSE and Donald Duck will finally take up permanent residence in France when Mr Jacques Chirac, the French prime minister, signs tomorrow with a Walt Disney group a landmark agreement to build a European Disneyland at Marne-la-Vallee, 30 miles east of Paris.

The venture will become the largest construction project to be launched in France since the construction of the Défense business district in Paris and will initially involve investments of FFr 12bn to FFr 15bn.

However, the promoters expect the total investment to amount to about FFr 45bn over the next 30 years including the infrastructures, rapid rail link from Paris, and other facilities like hotels, golf courses and other leisure investments.

The French authorities have been negotiating the venture with the Walt Disney group for the past two years. But the Prime Minister's office confirmed at the weekend that the parties would sign the definitive agreement on Tuesday.

The leisure park called Eurodisneyland will be only the second Disneyland to be built outside the US. The first was in Japan.

France had originally competed with Spain for the park and signed a preliminary agreement with Walt Disney Production in December 1985. The subsequent negotiations proved difficult but the government negotiators were finally able to smooth out local and national obstacles to the park.

The government said in a statement at the weekend that the Prime Minister had asked the French negotiators to secure financial guarantees from the Disney group as well as ensuring that the project would take into account European and French culture.

The park, which hopes to attract up to 10m visitors a year and give a major boost to tourism to the Paris region, is expected to open in 1992.

The initial investments will total FFr 10bn—FFr 15bn, of which about FFr 2bn will come from public funds and the majority from the private sector.

The company which will control the project will start with a capital of FFr 3bn, of which 60 per cent will be held by French and other European investors. The other 40 per cent will be held by US interests, including a 16.64 per cent stake by the Walt Disney group.

The project is expected to employ 20,000 people during the construction period and about 30,000 people when the park and its related facilities come into operation.

The initial part of the project will involve about 500 hectares and the main Disney theme park. Work is expected to start early next year to enable the park to open in four years.

Although the park will have the familiar features of the US Disney parks, the "Frenchness" of the project will be reflected in a section devoted to Jules Verne, the French author of Around the World in Eighty Days and several classic science fiction adventures, and another on French history.

Mr Michel Giraud, the head of the regional council of the Paris-Ile de France area, said that the total volume of investments were expected to total FFr 45bn over a 30-year period, making the project comparable in size to the construction of a fixed link across the Channel.

Pomp and ceremony for EEC anniversary

By John Wyles in Rome

THE EUROPEAN Community's policy of using its birthday celebrations to promote interest in its aims will find full expression in Italy this week through activities marking the 30th anniversary of the signing of the Treaty of Rome.

The event will be commemorated by a "solemn ceremony" beginning on Wednesday at the same time as and in the same room of the 16th century Campidoglio where leaders of the six founding countries put their names to a document which has been the Community's constitution and development plan.

The occasion will offer a rich harvest of speeches from representatives of the main EEC institutions—Sir Henry Plumb president of the European Parliament, Mr Jacques Delors, president of the European Commission and Mr Leo Tindemans, the Belgian foreign minister who is president-in-office of the Council of Ministers.

Mr Bettino Craxi, acting Italian prime minister now that his government has resigned, will also offer his views on the Community

But the issues will be examined in rather greater depth in two conferences taking place in Rome and one in Florence. Potentially the most interesting and important will be the two-day meeting behind closed doors of the Action Committee for Europe.

Revived two years ago to continue the lobbying and proselytising work of the original committee led by the EEC's founding father, Mr Jean Monnet, the committee brings together some important opinion-formers from the worlds of politics and industry in the 12 member states.

Those taking part include Viscount Etienne Davignon, a former European Commissioner and a director of Belgium's Société Générale, former West German president Professor Karl Carstens, former French prime minister, Mr Laurent Fabius, Mr Francois-Xavier Ortoli, a former Commissioner and now president of Total Oil company, Mr Umberto Agnelli, vice-president of Fiat, Mr Edward Heath, the former British prime minister and Mr Patrick Sheehy, chairman of BAT Industries.

The committee's task will be to adopt a declaration on future priorities

The passages on security could well be the most closely scrutinised, both for their topicality and because the security discussions will be presided over by Mr Jacques Chaban-Delmas, president of the French national assembly.

In other conferences, European historians have been called together to discuss "the relaunch of Europe and the Treaty of Rome," while in Florence the Commission has organised a three-day meeting on "Culture, technology and the economy."

CHINA'S NATIONAL PEOPLE'S CONGRESS

Political alignments under scrutiny

BY ROBERT THOMSON IN PEKING

THE ANNUAL sitting of China's National People's Congress this wek will provide vital clues to the position of the country's political axis following several months of turmoil in the Communist Party leadership.

To prove that the Chinese version of a parliament does allow genuine debate, several delegates last yar did not vote for lgislation introduced at Peking's Great Hall of the People, and the Chinese press felt the nd to not that the NPC was not a rubber-stamp.

This year there is much interest in whether the Prime Minister and acting Party Gneral-Secretary, Mr Zhao Ziyang, will relinquish the first job and concentrate on the party position he inherited with the fall of Mr Hu Yaobang in January.

The NPC is the highest body of government and is empowered to appoint a new Prime Minister, though most diplomats consider that a decision will not be made until a Communist Party conference in the autumn. By then the political situation could be more stable.

Mr Zhao will provide a guide to the damage the economic reform programme has suffered during the leadership upheaval and the subsequent rise of conservative influence.

Conflict in the leadership surfaced again late last week, when the NPC standing commitee, an elite body strongly influenced by several key conservative officials, decided not to submit an enterprise draft law designed to give factory managers more authority to this week's full NPC sitting.

Disputes between factory managers and party secretaries over the running of enterprises have hindered government plans to improve production efficiency. The aim of the draft law was to lift the party's role on the factory floor.

Zhao Ziyang: likely to speak on economy

Orthodox Marxists in the leadership are known to think the party should have more control not less, and diplomats suspect that these officials have been working to undermine the draft law, which has been rejected three time.

Mr Peng Zhen, the NPC standing committee chairman, has been one of the more outspoken conservative voices in recent months. His committee effectively dumped the only economic refor mthat was to have bee non the agenda for the full meeting of 2,,978 delegates this week. Chinese television reported that the draft law had been rejected because of "difference of opinion."

Reports in the Hong Kong press suggest that Mr Hu will attend an NPC sitting, which would be his first public appearance since his forced resignation two months ago.

Meanwhile, the campaign against western influence has eased, with only occasional press commentaries reminding the masses to "struggle against bourgeois liberalism."

Investment demands to figure in Saudi visit

By Richard Johns

THE increasingly thorny issue of UK "offset investment" demanded by Saudi Arabia to give it some compensatory benefits for its £5bn-plus outlay on the Tornado deal is expected to figure prominently in the background of King Fahd's state visit to Britain starting tomorrow.

The payments schedule for the aircraft being supplied by British Aerospace will also be discussed during the monarch's three-day visit.

Key figures in the Saudi party—as far as the government-to-government agreement on the military aviation package signed in February last year is concerned—are Mr Abdul-Aziz Zamil, Minister of Industry and Electricity, and Mr Hisham Nazer, Minister of Oil.

They will have meetings respectively with Mr Peter Walker, Energy Secretary, and Mr Paul Channon, Trade and Industry Secretary, on Thursday.

Saudi determination to get a firm commitment from British defence contractors on investment related to the Tornado programme was made clear at the first meeting in Riyadh a fortnight ago of a committee co-chaired by Prince Fahd bin Abdullah, Assistant Minister of Defence, and Mr Colin Chandler, head of the UK Defence Export Services Organisation.

At the same time proceeds from the 300,000-400,000 barrels a day of oil lifted by Royal Dutch/Shell and British Petroleum, which are paid into a special escrow account, are believed insufficient to cover the cost of work and deliveries by British Aerospace, the main contractor.

Also accompanying King Fahd are Prince Saud al Feisal, the Saudi Foreign Minister, and Mr Feisal Hegelan, the Minister of Health.

Mrs Aquino vows military struggle against terrorism

BY RICHARD GOURLAY IN MANILA

AMID A growing sense of frustration in government circles with mounting terrorist violence, President Corazon Aquino of the Philippines yesterday vowed to secure the country in the next five years against threats from both the "communist rebels and rightists."

The answer to the terrorism of the left and the right was not social and economic reform but police and military action," Mrs Aquino said at the annual passing out parade for graduates of the country's elite military academy.

Earlier Mrs Aquino addressed the cadets from below the hastily mended grandstand that was blown up by a terrorist bomb last Thursday, killing three soldiers and a widow who was to receive her husband's medal.

Military teams investigating the blast detained for questioning on Saturday two soldiers who they said were acting suspiciously after the explosion, but have otherwise failed to find clues as to who planted the bomb.

The blast came in a week in which New People's Army rebels killed 37 government soldiers in two ambushes that have been a major blow to the counter-insurgency programme.

Tutu urges ceasefire in talks with ANC leaders

BY VICTOR MALLET IN LUSAKA

LEADERS of South Africa's main opposition guerrilla organisation, the African National Congress (ANC), have rejected the possibility of a ceasefire suggested by Archbishop Desmond Tutu in his first official round of talks with the ANC at the weekend.

Archbishop Tutu, although reviled by many right-wing South African whites as a political agitator, has repeatedly spoken out against the use of violence in the struggle between black radicals and the Pretoria Government. He is head of the Anglican Church in southern Africa.

Before leaving for South Africa after his two-day visit to Lusaka, where the ANC has its headquarters, the Archbishop told reporters that both sides had agreed on the need to replace apartheid with a non-racial political system, but that his followers believed the situation did not yet warrant the guerrilla tactics of the ANC.

● Mr Ronnie Watson, one of four white brothers who have spearheaded the campaign against sporting apartheid, was arrested by Ciskei police on Friday as he left the trial of a political activist. Mr Watson's lawyer, Mr Dennis Kirk, said he was being held under Section 26 of the Internal Security Act of the Ciskei. This permits detention without a warant

IADB funds delayed pending reform talks

BY ALEXANDER NICOLL IN MIAMI

AN OVERDUE replenishment of funds for the Inter-American Development Bank (IADB), the multilateral lending institution for Latin America, was delayed at the weekend when officials decided to put off until June consideration of controversial reform of the bank's structure.

Representatives of industrialised and Latin American nations held talks in Miami before the 44-member IADB's annual meeting, which starts today with an address from Mr James Baker, US Treasury Secretary.

The gathering is taking place against a background of worsening debt problems for Latin countries, and particularly for Brazil, the developing world's largest debtor. Brazilian officials were meeting the country's advisory committee of leading creditor banks in Miami yesterday.

Creditor and debtor nations alike believe the renewed debt crisis has heightened the need to strengthen the IADB's lending programme. There were some hopes that Mr Baker would signal the possibility of a compromise on the damaging dispute which has delayed replenishment of the capital which backs IADB loans.

The quarrel has been caused by the desire of industialised countries to take a tighter grip of the bank's lending policies and particularly by a US attempt to establish for itself a virtual right of veto against any new IADB loan.

At present, loan decisions are based on a simple majority of the bank's shareholders, giving Latin nations control because they have 54 per cent of the votes. The US is demanding that decisions be based on a 65 per cent vote.

OVERSEAS NEWS

John Elliott reports on the background to India's state elections

A test for Gandhi's fading appeal

THE ability of Mr Rajiv Gandhi, India's young prime minister, to operate his family's traditional political magic and win the support of millions of rural and urban voters, despite mounting political criticism of his regime, is being put to the test today in three major state elections and a series of local by-elections across the country.

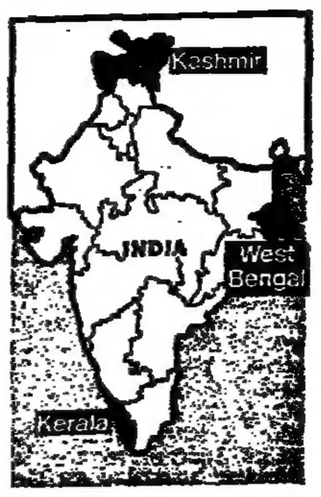
Mr Gandhi urgently needs to demonstrate that he enjoys mass popularity among the 50m voters involved in today's polls. His already diminished prestige has suffered further during the past ten days because of a public row with President Zail Singh, an astute elder Sikh politician, who is seeking public revenge for humiliations he has suffered since he personally installed Mr Gandhi as prime minister nearly 2½ years ago after Mrs Indira Gandhi was assassinated.

The row has led to allegations that Mr Gandhi has intentionally misled Parliament over his relationship with the president, who is the country's non-executive constitutional head.

It has also spilled over into other controversial events including a police raid on a newspaper owner's house, the activities of both Ministry of Finance law enforcement officials and a US detective agency, and inquiries into alleged corrupt activities by Reliance Industries, India's fastest growing company.

If Mr Gandhi's Congress I Party does well today, his critics may be quietened, at least temporarily. But if he does badly a growing number of dissidents within Congress I, as well as leaders of opposition parties, will step up their attempts to embarrass him as he prepares for two further major political hurdles. By July there must be an indirect election for a successor to President Zail Singh, whose term of office is expiring, and regional assembly elections in the sensitive Hindu-dominated state of Haryana, adjacent to the troubled Sikh-dominated state of Punjab, which Congress I cannot afford to lose.

Mr Gandhi has put his prestige on the line by spending most of the past few weeks flying around the country, addressing massive rallies in the states where there are



regional assembly elections today—West Bengal in north-eastern India, Kerala in the extreme south, and Jammu and Kashmir in the far north.

In West Bengal there is little chance of Congress I ousting the ruling Left Front Government led by the Communist Party of India — Marxist (CPIM). But for the sake of Mr Gandhi's standing it needs to win more than its current 58 seats in the 294-seat assembly.

In Kerala there is a closely fought contest between two coalitions. Mr Gandhi needs the ruling United Democratic Front, dominated by his Congress I, to stay in power by fending off a challenge from the CPIM-led Left Democratic Front.

In Jammu and Kashmir the Congress I has a liaison with the regionally-based National Conference, which is expected to win. Together they need to ward off serious challenges from small fundamentalist Moslem and Hindu parties.

Congress I has done increasingly badly in most polls since 1985, so Mr Gandhi also needs it to hold its ground today in by-elections for three seats to the Lok Sabha, the lower house of India's parliament, and for eight regional assembly seats.

Mr Gandhi's personal standing has been declining with national politicians, bureaucrats and industrialists. He is still being criticised for moving Mr Vishwanath Pratap Singh, his successful Finance Minister, to be Minister of Defence two months ago. Mr Gandhi then took temporary charge of the finance portfolio himself but failed to enhance his political authority with his Budget on February 28 which is being widely attacked for lacking a clear policy lead and for poor detailed drafting.

But it is the row with the president which could be the most damaging. Since coming to power, Mr Gandhi has ignored Mr Singh and has stopped him accepting many foreign trips. He is thought to believe that Mr Singh, a former chief minister of Punjab and a former national home minister, was partially responsible for allowing the present Sikh extremism to build up. Mr Singh is also accused of dabbling in Punjab politics after becoming president.

When Mr Gandhi's popularity was high, Mr Singh kept quiet, only occasionally leaking his displeasure to journalists. But as Mr Gandhi has become more vulnerable, and as his own term of office begins to run out, Mr Singh has privately encouraged politicians and journalists to air his complaints more loudly.

Eventually, after Mr Gandhi assured parliament recently that he and the government were fulfilling their obligations under India's constitution to keep the president briefed, Mr Singh sent him a letter setting out what he called "the factual position." He said this was "somewhat at variance with what has been stated by you."

The letter was published in the Indian Express, one of India's main newspapers, 10 days ago. Mr Singh wrote that "certain well established conventions have not been followed" and he listed occasions when consultations had not taken place, despite his own personal appeals to Mr Gandhi.

A few hours after the letter was published, the home in New Delhi of Mr Ramnath Goenka, 84-year-old chairman of the Indian Express group, was raided by Central Bureau of Investigation (CBI) officials. It is widely assumed that the raid was aimed at finding information about the leaked letter, especially since there have been some suggestions that Mr Goenka may have been helping the president with the drafting.

Rajiv Gandhi: in need of good results

But the CBI insists the raid was staged to find details of a relationship between the Indian Express, which has been running a series of stories attacking the Bombay-based Reliance Industries Group, and the Fairfax Group, a US detective agency.

The CBI claimed it had a letter written by Fairfax to the newspaper's employee responsible for the stories referring to a $500,000 fee that the Ministry of Finance was paying Fairfax for information. Yesterday Fairfax issued Indian newspapers with statements saying this letter was a forgery. The Indian Express has said it believes the letter was written and planted last November by industrialists who were successfully campaigning to have Mr V.P. Singh moved from the Ministry of Finance because they were embarrassed by raids he was authorising and by facts he was unearthing with the help of Fairfax.

So what started out as a stand-off relationship between the Prime Minister and President has suddenly escalated into both a constitutional issue and a potentially embarrassing scandal, which could further undermine the Government's image. To deal with these problems, Mr Gandhi needs good results today.

Sectarian strife worries Egypt

BY TONY WALKER IN CAIRO

THE DEATH of a woman in a Nile delta town late last week in sectarian violence between Moslems and Christians is the latest in a series of such incidents that have alarmed the authorities.

The fatality occurred in the village of Shabasy al-Shohada, 160 km north-west of Cairo, after Moslem militants set ablaze a house belonging to a Christian. The fire spread to nearby dwellings.

President Hosni Mubarak warned last week in the upper Egyptian town of Minya, about 250 km south of Cairo, of the dangers of sectarian strife.

He urged his countrymen to "stand firm" against rumour-mongers who were incited hatred between communal groups. His warning coincides with an election campaign for the lower house of Parliament. Pro-Islamic slogans have been a feature of the campaign.

Egypt's Christians, most of them Copts—an ancient orthodox sect which elects its own Pope—number about 5m of Egypt's predominantly Moslem population of more than 50m.

While relations between the two communities have been relatively stable, a constant worry for the authorities is that minor incidents could provoke serious conflict at a time when Egypt is experiencing an Islamic revival in common with surrounding Arab states.

Egypt's Copts tend to be involved in commerce and in professional activities such as accountancy. Many jewellery shops are run by Coptic Christions. Police have been stationed outside some of these shops in regional centres.

The authorities are particularly concerned about communal tensions in upper Egyptian towns such as Assiut, Sohag, and Quena where the Islamic trend is strongest. These towns also have sizeable Christian communities.

Sohag, which is about 500 km south of Cairo, was the scene last month of serious unrest when an 183-year-old mosque caught fire, triggering rumours that Christians were responsible.

In retaliation Moslems torched a nearby Christian church before riot police, using tear gas and batons, brought 2,000 demonstrators under control. The authorities reported that after an investigattion it was found that an electrical short-circuit had caused the fire in the ancient Sohag mosque.

The unrest in Sohag coincided with disturbances between Christians and Moslems at Beni Suef, just 100 km from Cairo, where rumours spread that Copts had devised a spray that printed the sign of the cross on the cloaks of Moslem women.

Again the authorities were obliged to dispel such rumours, calling in forensic experts to explain that veils of polyester fabric sometimes developed characteristics that appeared like the sign of a cross. More than 150 per arrested in the Beni Suef disturbances.

A Western diplomat described the series of incidents as a "worrying" and "nagging" problem for the authorities.

Budget deficit record for Taiwan

By Robert King in Taipei

TAIWAN'S parliament has been presented with a record deficit budget of Taiwan $479.67bn ($8.7bn) for fiscal 1987-88, an increase of 11 per cent over this year.

Defence and foreign affairs spending, as usual, represents the largest single component of the budget at Taiwan $175.9bn, compared with Taiwan $160.3bn this year. In addition, Taiwan $85.4bn is earmarked for social affairs, Taiwan $82.7bn for economic construction and communications, and Taiwan $62.2bn for education.

As a result of the increased spending, the deficit during the year will rise 33 per cent from this year's Taiwan $55.6bn to Taiwan $73.97bn. The Government expects to offset this deficit by issuing Taiwan's $59.5bn in bonds and bringing forward a Taiwan $12.54bn surplus from the current year's budget.

Investment in public projects, including those financed by public corporations and provincial governments, will reach Taiwan $330bn. These investments include the so-called "14 major construction projects" which will run until the end of the century and include power stations, telecommunications upgrading, highways and a rapid-transit system for Taipei.

European nations resume contacts with Damascus

BY ANDREW GOWERS IN DAMASCUS

SEVERAL EUROPEAN countries are moving quietly to resume high-level contacts with Syria, in spite of EEC sanctions and of Britain's apparent reluctance to consider re-opening diplomatic relations with Damascus.

During the last week, a senior Foreign Ministry official from Belgium, which currently holds the presidency of the EEC, was in Damascus to brief Syrian officials about the Community's recent declaration in support of an international conference on the Middle East conflict.

The visit followed that of Mr Henri Servant, an envoy of Mr Jacques Chirac, the French Prime Minister, earlier this month, and an economic delegation from Paris which was in the Syrian capital last week.

It also came after West Germany's decision to send a new ambassador to Damascus, and the return of the Canadian ambassador to Syria. The Syrian government is understood to have decided to upgrade its relations with Germany, and intends to send a senior foreign ministry official as its next ambassador there.

Bonn did not replace its ambassador in Syria when he completed his tour of duty late last year. This roughly coincided with the diplomatic breach between Britain and Syria after the Hindawi affair, in which a Jordanian carrying a Syrian passport was convicted of attempting to blow up an Israeli airliner en route from London to Tel Aviv.

Under British pressure, the EEC subsequently suspended aid to Syria and imposed limited sanctions on Damascus.

More recently, Syria—while still pleading innocence from charges of high-level complicity in the Hindawi affair—has been making tentative efforts to resume contacts with London. The unofficial attempts are being publicly resisted by the British government, which says it cannot discuss restoring relations until there is firm evidence that Syria has dissociated itself with terrorism.

"Breaking diplomatic relations is easy. Restoring them takes a lot more time," said one Western diplomat in Damascus.

The European moves appear to be motivated by a fear that Syria — which has traditionally played a key role in political contacts between Arab countries and Europe — has become excessively isolated. Paris and Bonn are also well aware of the role that Syria might be able to play in obtaining the release of French and German hostages in Lebanon, following its deployment of troops in Beirut.

Underlying the political concern, there are also economic considerations. France is understood to be owed about FFr 350m in overdue payments by Syria.

Another small sign of an easing of Syria's isolation came this weekend, when former US President Jimmy Carter started a private visit to Damascus.

Mexico's ruling party removes young dissidents

BY DAVID GARDNER IN MEXICO CITY

MEXICO'S ruling Institutional Revolutionary Party (PRI) has purged the leadership of its youth wing of supporters of Mr Cuauhtemoc Cardenas and his dissident democratic current inside the party in the latest of a series of moves which appear to signal nervousness more than strength.

Mr Alejandro Rojas, national co-ordinator of the Revolutionary Youth Front (FJR), and Mr Ramiro de la Rosa, its secretary for ideology, have been removed by the simple expedient of publishing a fresh list of leaders in the main newspapers.

Both men had publicly supported Mr Cardenas when the PRI de facto expelled him 10 days ago for attacking the anti-democratic practices of the leadership and challenging the traditional right of the sitting president to hand pick his successor, as President Miguel de la Madrid must do this year. They intend to stage hunger strikes outside PRI headquarters from today.

Meanwhile, the FJR called for a demonstration in support of the leadership. This was being watched with some interest since the two purged leaders revealed to the centre-left daily La Jornada last Thursday that the PRI youth wing was a largely fictitious organisation, with fewer than 3,000 members in the country.

The protest and counter-protest are part of an elaborate political ballet which has been going on since the Cardenas affair erupted two weeks ago, with dissidents and the Government tip-toeing around each other rather than colliding head on.

For instance, last Thursday, the 49th anniversary of the nationalisation of the oil industry carried out by Gen Lazaro Cardenas — father of Cuauhtemoc and a revered president of the 1930s, the dissident leader refused to step up to the memorial podium at the Monument to the Revolution in Mexico City until President de la Madrid's representation, the city mayor, stepped down.

Meanwhile, President de la Madrid himself was inaugurating new oil installations in the neighbouring state of Hidalgo and listening to his subordinates deliver speeches which extolled Gen Cardenas and discipline in equal measure.

Mr Francisco Rojas, the new head of Pemex, the state oil monopoly, stretched his speech to establish an unbroken political line between the 1930s revolutionary leader and Mr de la Madrid, "brothers in nationalist and revolutionary striving," as he put it.

Turks upset by Moslem links with government

By David Barchard in Ankara

Political scandal has erupted in Turkey with the discovery that the Moslem World League, a Saudi Arabian-financed organisation, sponsored and paid Islamic clergy sent abroad by the Turkish Government to serve migrant workers between 1982 and 1984.

The Moslem World League is regarded as a fundamentalist Islamic group, opposed to the secular Westernised political system introduced into Turkey by Kemal Ataturk

The discovery of links between the movement and the military government which ruled Turkey between 1980 and 1983 is a major embarrassment for President Kenan Evren, who has recently denounced fundamentalism as one of the main dangers that Turkey is facing.

The main opposition party, the Social Democratic Populist Party has demanded that President Evren and Mr Turgut Ozal, the Prime Minister, should resign — the first time in living memory in Turkey that such a call has been made to the president.

Other opposition parties have condemned what the Turks are already describing as a "local Irangate"

Serita Kendall in Quito reports on the earthquake's continuing effects on the economy

Ecuador trembles as more disasters loom

AS REPAIRS and reconstruction get under way in north-eastern Ecuador, scientists say there is a strong risk of further natural disasters in the area struck by the earthquake on March 5.

Most of the devastation was caused by enormous mud and rock avalanches which tore down the mountainsides with such deafening noise that local inhabitants thought the volcano El Reventador had erupted.

The rivers, filled with mud and tangled vegetation, spread far beyond their normal courses, and carried away people, houses, crops and bridges.

Geologists say further landslides can be expected, while a report by an Italian team warns that the area is faulted and unstable, and seismic tremors continue.

Although the earthquake (6.8 on the Richter Scale) had its epicentre close to El Reventador, there has been no sign of increased volcanic activity. High on the forest-covered mountainside, it is possible to see small dammed-up rivers which could burst through at any time.

People who fled the area after the earthquake are already returning, even though many villages remain cut off. Some are going back to look for missing relations, others to try to salvage farm animals and possessions.

Rescuers search for victims of huge landslide

In a recent visit to the area, President Leon Febres Cordero said more than 1,000 people were dead or missing, and local authorities in the Amazon province of Napo put the figure much higher.

Not only were busloads of passengers buried in the mud, but some small communities virtually disappeared.

More than 20 miles of the Trans-Andean Oil Pipeline, a gas pipeline, and the Quito-Lago Agrio road were swept away, and there was extensive damage to another 25 or 50 miles.

Because of the importance of the pipeline—it carries all of Ecuador's Amazon oil production, which normally represents about two-thirds of foreign income — reconstruction has begun immediately.

The Government is confident that oil will be flowing again by August, but the future of the road and a hydro-electric scheme are undecided.

The cost of building a good road along the same route as before is considered too high, given the risk of more landslides. An alternative route farther south between Quito and Lago Agrio only requires one short link, which could be completed quite quickly.

However, thousands of people who depended on the old road for taking out farm produce and bringing supplies would be left with nothing but a rough track along the pipeline for access.

Downriver from El Reventador, where the Andean foothills give way to Amazon lowland, Indian communities have been isolated for two weeks.

The River Aguarico became a sea of mud, making canoe travel impossible, and bananas, coffee and manioc are awaiting transport to market.

Although Napo took the main brunt of the 'quake, thousands of peasants in the highland provinces of Pichincha and Imbabura were also affected.

British aid—tents, blankets, groundsheets and rolls of plastic sheeting—flown into Quito, was already being distributed to local communities the same evening. Tremors continue, and families are camping out behind their homes in the cold rainy weather.

In all, more than 100,000 people have suffered direct effects of the earthquake. For the whole of Ecuador, the indirect effects are dramatic. Oil exports have stopped, new credits are needed for reconstruction, and domestic petrol prices have been raised by 80 per cent, triggering street riots.

Unions have called a national strike for March 25, and the brief political truce between the Government and the Congress has disintegrated following the increase in fuel prices.

Although oil production is to be pushed up to 300,000 barrels a day the pipeline is ready, and Venezuela is "lending" Ecuador 12.5m barrels, the next few months will be very tough.

The World Bank and the IDB are expected to provide loans for rebuilding infrastructure. Numerous US and other technical teams are assessing damage, which ranges from oil pumping equipment to Quito's Colonial church towers.

The visit by Vice-President Bush of the US should produce material and visible US support for the Ecuadorean Government.

Ecuador's record with foreign bankers is good, and the Government is not expected to have difficulty reaching an agreement with commercial banks once rescheduling proposals can be firmed up.

Soviet banks plan to back East-West joint ventures

BY GEORGE GRAHAM IN PARIS

THE SOVIET UNION'S state banks are planning to give a boost to the creation of joint ventures between Soviet and western companies.

Gosbank, the Soviet central bank, and its subsidiary, Vneshtorgbank, the foreign trade bank, have signed joint venture agreements with Credit Lyonnais, the third largest French bank, and Banque de l'Union Europeenne, part of the French CIC banking group, to promote and finance mixed capital ventures in the Soviet Union.

The agreements, signed last week in Paris, follow a decree in January opening the way for the creation of mixed capital joint ventures in the Soviet Union.

Mr Jean-Paul Dessertine, international director of BUE, said the agreements were the first of their type in the framework of the new Soviet legislation, although other agreements have been signed in the hotel and publishing sectors.

The agreements, which were also signed by Banque Commerciale pour l'Europe du Nord, the French subsidiary of the two Soviet state banks, initially aim to provide promotion and consulting facilities for companies wanting to set up mixed capital joint ventures with the Soviet Union.

In a second stage, the partners plan to form their own mixed capital financing companies to take stakes in future joint ventures.

The Soviet decree on mixed capital joint ventures, published on January 13 this year, limits foreign investors to 49 per cent of the capital of the joint company and levies a 30 per cent tax on profits, but does not apply this tax for the first two years. Part of the foreign share of profits can be exempted from tax if reinvested in the Soviet Union.

The decree allows purchasing and sales to be carried out through the Soviet state organisations, but at prices prevailing on world markets.

BUE, formerly part of the Empain Schneider industrial group, has been active in the Soviet Union for 30 years

The ventures are initially expected to promote only Franco-Soviet joint enterprises, but support for mixed capital joint ventures involving other western countries is not ruled out.

SHIPPING REPORT

Dry cargo rates up, but tanker market still gloomy

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

STRONG demand from Soviet and Chinese charterers helped push up rates in the dry cargo market last week, but there was little to brighten the gloom in the tanker market.

Denholm Coates, the London broker, said the driving force behind the improvement on the dry cargo side was Soviet demand for Panamax class ships (about 60-80,000 tons deadweight).

This led to speculation that the Soviet grain harvest had been more seriously affected by last year's Chernobyl nuclear disaster than had previously been reported.

Panamax time charter rates were said to be between $6,000 (£3,773) and $7,000 (£4,402) for Atlantic round voyages, and between $6,000 and $6,750 for Pacific voyages.

Brokers said there was "definite evidence" of Panamax class fixing for five to seven months, as well as 12 months, for which the going rate for a modern ship was about $6,250.

Soviet chartering was said to be the chief factor behind a surge in values on the Baltic International Futures Exchange (Biffex), which broke through the 1,000 points barrier on Thursday for the first time since the market opened in May 1985.

This was followed by a further record on Friday, when trading volume rose to a record 1,114 lots, compared with a previous peak of 985 in January.

Dealers said the demand from the Soviet Union was sufficiently strong to attract some tonnage normally employed between the US, Gulf and Japan.

There were also suggestions that some owners were considering taking older vessels out of laying-up to take advantage of demand.

In the tanker market, a number of vessels were said to have been fixed from the Middle East, but rates remained low, largely due to the presence of about 40 very large crude carriers (VLCCs) seeking cargoes.

E. A. Gibson, the London shipbroker, said West Africa was one of the brighter spots on the market, with rate levels drifting up slightly because of the volume of inquiries.

Rates remained steady in the Mediterranean, and were said to have firmed only slightly in the Caribbean.

In the North Sea, inquiries remained relatively strong, and there was a slight firming in rates. Brokers said there was little activity in the fuel oil market, however, and the business which was concluded was said to be at somewhat depressed rates.

World Economic Indicators

INDUSTRIAL PRODUCTION
(1980 = 100)

					% change over previous year
	Feb. 87	Jan. 87	Dec. 86	Feb. 86	
US	117.2	116.7	116.5	115.3	+1.6
	Jan. 87	Dec. 86	Nov. 86	Jan. 86	
UK	109.8	109.4	110.1	107.1	+2.5
	Dec. 86	Nov. 86	Oct. 86	Dec. 85	
W. Germany	106.3	106.4	106.9	103.3	+2.9
Japan	122.9	118.6	120.7	121.6	+1.1
France	102.1	103.3	103.0	100.9	+1.2
Italy	100.5	99.4	99.2	97.4	+3.2
Netherlands	106.8	106.2	106.8	101.3	+5.4

Source (except US, UK, Japan): Eurostat

Peter Riddell introduces our series by examining the political and intellectual roots of Thatcherism and (below) **Fiona Thompson** introduces a "class of '79" which left school in the year Mrs Thatcher became Prime Minister

An instinct, not an ideology

IN OCTOBER 1968 a junior member of the Conservative Shadow Cabinet set out her vision for Britain: "What we need now is a far greater degree of personal responsibility and decision, far more independence from the government and a comparative reduction in the role of government."

Thatcherism, as it became known, has remained remarkably consistent in its objectives ever since. The term, one of the few such "isms" named after a British Prime Minister, has come to denote a whole style and approach to politics.

As with all such labels, it is an oversimplification and masks a varying mix of policies. But Thatcherism is essentially an instinct and a series of values rather than a fully-worked out ideology or set of policies. It is not synonymous with monetarism or a pure free-market approach.

There has, however, been a constant theme to Thatcherism, reflecting Mrs Thatcher's own background as a shopkeeper's daughter in the small provincial town of Grantham in the 1930s and 1940s. It represents a belief in hard work, family responsibility, striving and postponed satisfaction, duty and patriotism. It is reflected in a dislike of trade unions.

Yet Mrs Thatcher did not become Conservative Party leader, or even Prime Minister, because of a wave of support for Thatcherism as such. Admittedly, she and her allies promised a return to the Conservative Party's first principles and identified with the policy rethink already begun by Sir Keith Joseph. But Mrs Thatcher became leader in February 1975 principally because she was the first candidate willing to challenge Mr Edward Heath at a time when many Tory MPs wanted a change after two election defeats.

Mr Chris Patten, then head of the Conservative Research Department and now Minister for Overseas Development, commented in a BBC programme last year that Mrs Thatcher's victory was "much more a peasant's uprising than a religious war. It was seen much more as the overthrow of the tyrant king rather than as a great ideological shift."

However, after Mrs Thatcher became leader, there was a major shift in approach, partly reflecting the mood of the times. There was a more general questioning of the post-war settlement—the belief of both Conservative and Labour Governments since the late 1940s that they could ensure full employment and control inflation via incomes policies, together with their joint support for the National Health Service and the welfare state.

The rethinking was associated with the rise of the New Right. Political philosophers and economists like Hayek and Friedman were the new prophets for their attacks on collectivism and monetary laxity respectively.

Sir Keith Joseph, who became Mrs Thatcher's main adviser in this debate attacked the ratchet-like way in which he believed Conservative policies had been steadily dragged away from a market approach and towards collectivism since the early 1950s. He argued that instead of illusory incomes policies, the focus should be gradually to reduce monetary growth, the budget deficit and public spending.

However, Sir Keith's self-styled "conversion" to Conservatism in 1974, when he realised the errors of the Heath administration, was not shared by other Conservative leaders. These "One Nation" Tories, such as Sir Ian Gilmour and Mr James Prior, argued that the free market approach derived from 19th-century liberalism and represented a strand of the Conservative tradition less influential than the party's paternalism.

Mrs Thatcher was, however, cautious in practice. This was partly because of her desire to avoid making too many detailed commitments. But she also had to carry with her a Shadow Cabinet, most of whose members had voted for Mr Heath in 1975.

The Conservative manifesto in 1979 was in many ways similar to Mr Heath's in 1970—promising to cut public expenditure and taxes, end nationalisation, curb the trade unions, restrict immigration and raise defence spending. But the underlying philosophy was very different. Whreas Mr Heath's aim was to modernise Britain and make the existing system work better, Mrs Thatcher explicitly promised a reversal of Britain's decline and a shift in the balance between the state and individual freedom.

Circumstances were also on Mrs Thatcher's side. The Labour Government had already moved in 1976 towards restricting public expenditure and started to publish monetary targets, while the strikes and industrial disruption of the "winter of discontent" made the public more critical of the unions.

Yet most analyses of the Tories' victory in the 1979 election did not see the result as a fundamental shift towards Thatcherism. It was mainly a case of a government losing, as its policies, particularly towards the unions, palpably broke down and a growing gap appeared between the attitudes of traditional Labour voters and the party's programme. Despite the Tories' success in exploiting the populist issues of tax, crime and council house sales, there was little evidence of a positive ideological commitment to Thatcherism or the New Right. A large majority of voters continued, for example, to support a high level of spending on the welfare state.

Indeed when Mrs Thatcher took office, her critics, including many traditional Tories, were highly sceptical of her ability to deal with the unions and apply her "monetarist" approach. Commentators looked eagerly for a U-turn which never came.

The key test, in fact, came in 1981 when unemployment was rising sharply in response to the deepest recession for 50 years. Instead of the Keynesian remedy of increasing the budget deficit and borrowing (as recommended by the opposition, Tory critics and many economists), the Government tightened fiscal policy in the 1981 Budget.

There have, of course, been changes in policy. In particular, the balance of the macro-economic approach has altered since 1979 when the emphasis was on monetary targets, particularly for sterling M3, and cash limits to restrain costs in the public sector. There were to be no formal targets for either the exchange rate or for pay rises.

The hands-off approach started to change after 1982 until eventually the medium-term financial strategy was substantially redefined — critics would say largely abandoned on its monetary side. Sterling M3 has been relegated to stockbrokers' circulars and there is a clear, though unpublished, target exchange rate range. Ministers also express definite views about excessive pay rises in the hope of talking down the level of settlements.

Public expenditure expectations have also changed. Instead of the proposed decline, and then standstill, in real terms, there has been a steady rise.

One successful initiative has been privatisation. This has dramatically shifted the frontiers between the public and private sectors as well as helping to treble the number of shareholders to 8.5m, which is roughly the number of people who voted Labour in the 1983 election. It is possible to point to study groups and pamphlets before 1979 which mentioned the desirability of selling off public assets to private enterprise. But the Tories' 1979 manifesto was cautious on this topic.

It was only in 1981, in face of growing frustration with the rising deficits of the nationalised industries, that the idea gained momentum.

Monetarist and free market critics now complain that the Government is interested only in containing, and not reducing, inflation. They also point to examples where the Government has continued to subsidise industries such as aerospace and cars.

It is certainly possible to highlight such changes as accommodation, trimming or what some Tories have dubbed "consolidation." But more striking is the consistency. The broad approach Mrs Thatcher set out in 1976 and has subsequenty reaffirmed in countless speeches has remained. It is the essentially moral nature of her vision which has permitted shifts in its detailed application. Last Tuesday's Budget again underlined the commitment to pursue a strategy of fiscal "responsibility."

Behind this moral vision stands a relentless, crusading personality, whose nature was illuminated in the 1982 Falklands war.

This personal dominance has also been evident in Mrs Thatcher's gradual removal of her critics. Only eight of her original 22-strong Cabinet remain.

Her resilience was also crucial in the Westland affair and the row last year over the possible sale of Land Rover, when Mrs Thatcher's own authority appeared shaken and her government lacking in momentum.

This same restless spirit has ensured that once equilibrium was restored, Ministers were not complacent but were looking for further major changes in a third term of office. The question about the Tories' election manifesto has been not whether it should be radical, but how radical it should be. It seems certain to include far-reaching proposals on eduction, private-rented housing, domestic rates, trade union law and privatisation.

The question for the future is how broadly will this radicalism run. "Keynes has been rejected. Beveridge has not," says Professor Ivor Crewe of Essex University. Together the NHS and social security account for 45 per cent of total public spending and the Government's much-vaunted social security reviews in 1984-85 produced little fundamental change apart from trimming back longer-term pension costs. And the problem of satisfying the public demand for health remains.

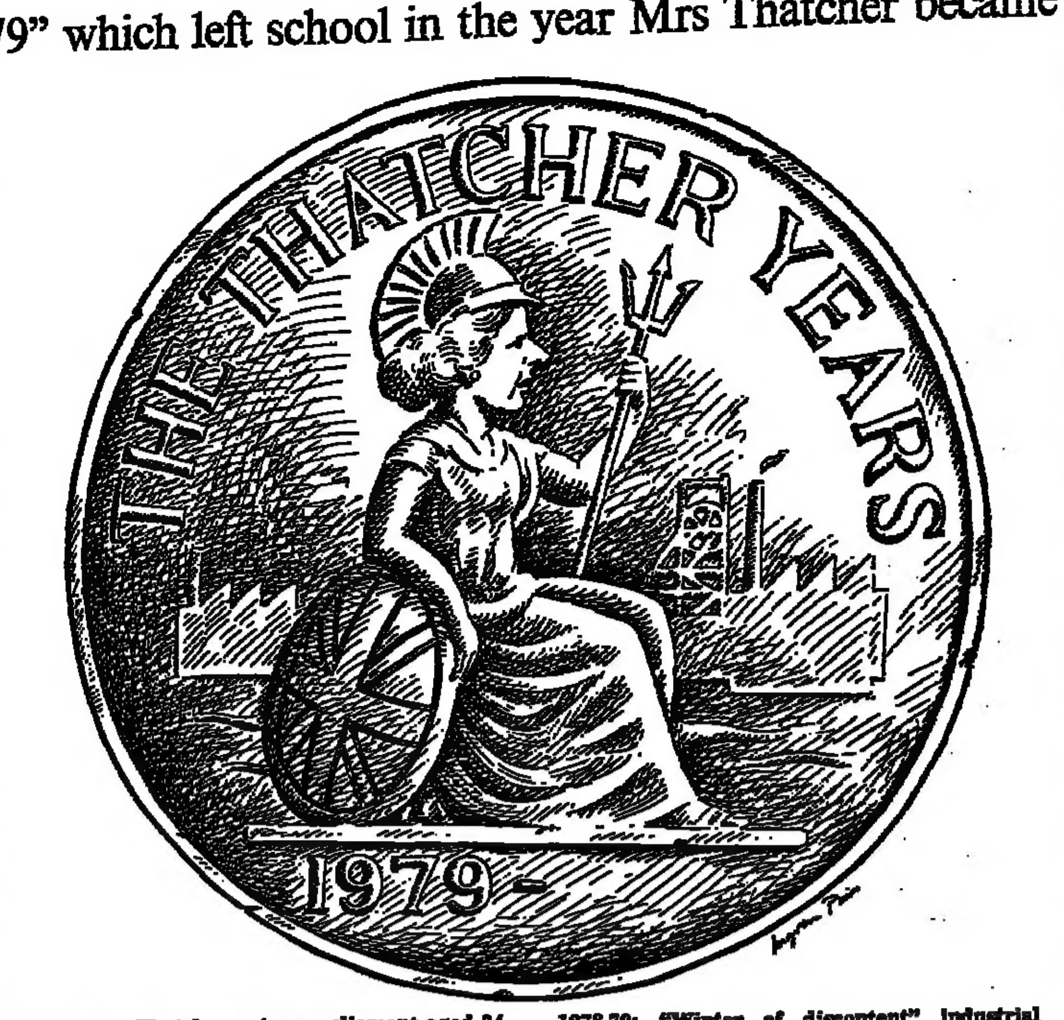
After eight years, however, Thatcherism retains the political initiative in the face of a divided opposition. This is partly reflected in acceptance by Labour of council house sales and ballots for trade union elections.

Yet in many respects Thatcherism remains a creed of the successful—those with jobs, owning their own homes and living in the more prosperous south and east of Britain. Thatcherism is less appreciated in the rest of the country where unemployment remains high and which has not benefited from the changes since 1979.

Any overall appraisal of the changes since 1979 has thus to take into account the different strands of Thatcherism. The monetarism must be set alongside the Prime Minister's mercantilist instincts. Her defence of mortgage tax relief is a long way from a free-market ideology. There is also the strand of nationalism—an anglicised version of Gaullism—as reflected in her regular battles with the rest of the EEC over the community budget. Yet another strand is authoritarianism, in attitudes to local authorities, to law and order, to calls for more open government and to critics.

For all the compromises and setbacks since 1979, the impetus of the Thatcher Government remains radical, forcing everyone else, including opposition parties, to adjust. As the Marxist Mr Andrew Gamble wrote last year, "whatever the fate of the Thatcher Government, the New Right will survive it." Mrs Thatcher could not have put it more succinctly herself.

Tomorrow: Samuel Brittan on the economy.



1959: Mrs Thatcher enters parliament aged 34.
1961-64: Parliamentary Secretary, Ministry of Pensions and National Insurance.
1964-67: Opposition spokesman, pensions, then housing and Treasury.
1967-70: Shadow Cabinet spokesman on energy, then transport and education.
1970-74: Education Secretary.
1974: Shadow Environment Secretary.
1974-75: Shadow Treasury spokesman.
February 1975: elected Conservative Party leader.
December 1976: IMF package.
1978-79: "Winter of discontent" industrial disruption.
May 1979: Wins general election with majority of 44 and becomes Prime Minister.
1980: Michael Foot becomes Labour leader.
1981: Formation of SDP. Inner city riots in Liverpool and Brixton. Cabinet reshuffle replaces prominent "wets."
1982: Falklands War.
June 1983: Re-elected with majority of 143.
1984-85: Miners' strike.
October 1985: Brighton bomb.
January 1986: Westland affair; resignations of Michael Heseltine and Leon Brittan.

THE CLASS of '79 have spent their entire working lives making their way through Mrs Thatcher's Britain.

From the moment they stepped outside the school gates, they have been exposed to the wind of change. If what they were taught to expect was low unemployment and inflation, if they looked for union power and a great deal more coal than dole, if they thought that council houses and nationalised industries were strictly not for sale—then they have had to learn all over again.

For the young men and women who left school in 1979, all adult experience—completing education or training, finding a first job, taking a flat, buying a house, marrying and raising a family—has been coloured by Tory rule.

How they have progressed is, to an extent, a test of the only government they have ever really known.

And, to judge by the careers of a random group from Watford, one pretty average town, the class of '79 has been getting ahead—if not necessarily getting on—with Mrs Thatcher.

Although popular geography would give Watford pride of place at the frontier between the two nations which are reputed to make up Thatcher's Britain, it is in fact an unremarkable place, a town which has largely missed out on the extremes of the past eight years.

Since it fell to the Conservatives in 1979, having been held by Labour for all but nine of the years since the end of the Second World War, Watford has known neither boom or bust.

Sharon Stone, who left Queens' School Watford with three A levels in 1979, has made her way in a manner which would win certain Prime Ministerial approval. She has raised her family and her standard of living through hard work as a scientific officer, hospital cleaner and nursing auxiliary. She stands on her own feet.

"I don't like Mrs Thatcher but I don't think any other government is going to do any better. I don't like the level of unemployment. Another government might decrease it but something else would have to go. It might be interest rates," she says.

"I find that frightening because we have managed to buy our own house. My mum and dad have bought their council house, which was nice of the Tories.

"As far as I can see, the Tories are making you independent. You've got to get up and fight for what you want. But if Labour comes in everybody's got to be dependent."

Ashley Ashwood

Sharon Stone: would win some approval from Mrs Thatcher.

Mrs Stone, her husband, Mick, a Rolls-Royce machine tool setter, and their children, Peter, four, and Claire, two, live in a modern semi-detached house in Luton. She nurses a suspicion that Labour would abolish mortgage tax relief.

"We couldn't afford it. We would lose our house. We would have to go into council accommodation and become dependent again. All that we have worked for we would lose," she says.

Mrs Stone, who is about to start a three-year course to train as a nurse, has, however, felt the chill wind of unemployment uncomfortably close to home, with relatives and friends being warned of redundancies to come. She will probably vote Tory at the next election, but may just plump for the Alliance.

She is also concerned about education, standards of teaching and the supply of pre-school places. She looks in vain for improvements compared with her own early schooldays, when there were too many children, too few teachers, but despite everything, she believes, the teaching was not too bad.

For Mrs Stone and other members of this class of '79 it seems to have been a matter of getting on with life under Mrs Thatcher, like it and not. It is a political loyalty riddled with reservations.

Likewise it is possible to find a young hospital doctor raised in Watford who acknowledges all the problems that she and her colleagues in the health service face—yet who does not hesitate to describe herself as a committed Conservative.

Charlotte Archer, aged 25, a former pupil at Bushey Meads School, Watford, and now a hospital doctor in Portsmouth—with her sights set on becoming a general practitioner—grew up in a service family with a Tory father "who has never wavered."

She is well aware of the multiple problems afflicting the NHS. "Everything is being cut. It's become very difficult, almost a tug-of-war between the doctors and the administrators who, really rightly, are trying to conserve money. But it's either at the expense of the staff or the patients."

Conditions for doctors were getting worse, with accommodation being cut back and fewer locums being employed. The result was a heavier burden placed on remaining staff.

But Dr Archer does not lay the blame for the state of the NHS on the Thatcher government.

"I think it's very difficult for the Government to provide more when there isn't any money. I'm sure they could provide more for everybody but it would be at the expense of inflation and the economy."

Trevor Foulkes, another of Watford's class of '79 school-leavers, might also be expected to be a staunch Tory voter.

"It's the extremes of what they do that I could never accept. I could never envisage myself voting Tory . . . I'll probably end up voting Alliance."

Mr Foulkes, aged 26, left Watford Boys' Grammar School with four A-levels, bound for British Rail and, through its sponsorship, an engineering degree course at Cambridge. He is now a management level telecommunications engineer with BR, owning his own flat in Bath and planning to marry in October.

Mr Foulkes, a likeable, feet-firmly-on-the-ground man, is deeply uneasy about the Conservatives' apparent indifference to the consequences of their policies, especially over unemployment.

He is also concerned about the extent of US influence in Britain. Cruise missiles should only be in the UK if totally under British control, he feels, and he also strongly objected to the use of bases in England for the strike against Libya.

Mr Foulkes would support a massive public works programme, aimed at reducing unemployment and restoring the nation's fabric. But he has, in general, little sympathy with Labour policies, including the reversal of recent government share flotations.

"I'm not looking forward to another five years of Thatcher government but there's no way I can see that I can vote to stop it," he says. "Mrs Thatcher will have to play it very carefully. People will begin to think they are being pushed too far. I wouldn't like to see riots and unrest. In some parts of the country I think it could come to that."

The prospect of another term of Tory government is equally unattractive to Raymond Maginley—although he readily confirms that he has had a better break than his parents, who came to Britain from Jamaica in 1959 and more good fortune than teenagers leaving school today. He has been getting on.

Mr Maginley left Queens' School, Watford, before taking A-levels, a month after Mrs Thatcher moved to Downing Street. He joined Astra Pharmaceuticals, at Kings Langley, as a junior laboratory technician and gained his qualifications through day-release study, becoming senior analyst and now head of quality control.

He is now buying his first house, in Hemel Hempstead; far removed from the early experience of his mother, a nurse, and father, now an inspector at Rolls-Royce, who struggled to raise six children.

"When they were my age I know they were finding it very hard to make ends meet," he says. "We were given far more opportunities than my parents ever were."

So why, come the general election, will be again vote Labour?

"This government had the opportunity to take part in the potential crippling of South Africa by imposing sanctions. There was no grey area there. There was a right and a wrong. They, in my opinion, chose the wrong way. I tried to be neutral and think why they had decided this way. "The only conclusion I could reach was that they were very, very selfish."

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UK NEWS

Mercury 'taking rising share of telecom market'

BY RAYMOND SNODDY

MERCURY Communications is taking an increasing slice of the telecommunications business of medium and large British companies from its rival, British Telecom.

So far, 37 per cent of major telecommunications users are already using Mercury and another 34 per cent are "likely or very likely" to become Mercury customers, according to market research carried out for stockbrokers James Capel. The total is more than 55 per cent higher than the level recorded by surveys of customers carried out towards the end of last year.

Mr David Gibbons and Mr Douglas Hawkins, the James Capel analysts responsible for the new study of Mercury, suggest that the strike by BT engineers earlier this year may have been a factor in the change.

"Clearly, many more users now realise the need for a second source to BT," the analysts say.

Mercury was ranked by users as better than BT on the quality of its service and – by a wide margin – on its prices.

Mercury appears to be doing particularly well in the City of London, with 17 out of the 18 financial institutions surveyed saying they were committed to Mercury.

"These results suggest that Mercury's market share among BT's large customer segment, which accounts for nearly 30 per cent of BT's revenues, and a substantially higher proportion of its profits, will be much great than previously expected – 5 per cent within a year, rising to 20 per cent by 1991," James Capel predicts.

Such forecasts, the stockbroker believes, will transform Mercury's profits from an operating loss of £10m this year to an estimated operating profit of £270m by 1991. If so, the performance of Mercury's parent company, Cable & Wireless, would be revitalised.

CABLE and Wireless yesterday confirmed that it is reviewing the planned purchase of £500m of Japanese telephone exchanges and cable. It is angry over Japanese moves to try to reduce the company's stake in the International Digital Communications consortium which wants to run Japan's new global telecommunications service.

Futures and options exchanges agree on long-term strategy

BY ALEXANDER NICHOLL

AN ADVISORY committee representing London's futures and options exchanges has reached broad agreement on the future of the International Commodities Clearing House (ICCH).

The role of ICCH has been under review since last year when Mr John Barkshire, chairman of the financial services group Mercantile House, was appointed chairman amid dissatisfaction about the cost structure and efficiency of ICCH, which clears most London futures markets as well as many overseas.

The London exchanges, including the London International Financial Futures Exchange (Liffe) and the London Stock Exchange, want a strong British-based clearing system to support their efforts to forge links with exchanges abroad as part of the trend towards globalisation of financial markets.

The outcome of the review has not yet been disclosed by ICCH, and it will in any case take many months to implement. But the advisory committee formed and headed by Mr Barkshire has agreed on long-term strategy.

It is understood that the future structure will reflect a more clear distinction between the various functions which ICCH carries out, and will place particular emphasis on its guarantee of performance.

A central guarantee corporation, which would stand behind every trade, may be established. S. G. Warburg, the merchant bank, is to study the potential structure of such a body.

ICCH, owned by the clearing banks, had been expected to be sold off as a result of Mr Barkshire's review, either to the exchanges or their clearing members. The banks, however, may now continue to have an interest. Ownership of the guarantee corporation could be broadened to a wider range of banks.

Other services provided by ICCH, including trade processing, arranging for delivery, and supervision of margin and other payments, are likely to be streamlined. Exchanges themselves can carry out some of them, and some of the commercial services of ICCH might be sold off.

New systems to be introduced, however, will enable traders in London markets to offset positions held on one exchange against those on another, substantially reducing their transaction costs.

This would provide a base for similar arrangements with exchanges abroad and would respond to pressure from the major users of the markets for cheaper clearing

Borrie may back banks over polarisation issue

BY DAVID LASCELLES, BANKING EDITOR

SIR GORDON BORRIE, the Director-General of Fair Trading, is widely expected to come out against the Securities and Investments Board (SIB) over the vexed question of polarisation when he reports on the SIB's rule book tomorrow.

But although his view will mark a major triumph for the clearing banks in their long-running battle with the SIB over this issue, the City of London watchdog body still seems able to count on the support of the Government when it goes on to parliament.

The SIB has said that banks must separate, or "polarise," their activities as salesmen of their own products and purveyors of independent investment advice. In practice, this means a bankmanager would not be able to sell his bank's investment or insurance products because of potential conflicts of interest.

The banks, which have mounted a vigorous lobbying campaign against the proposed rule, say it is unnecessary and would involve them in high extra costs. The SIB, in turn, has raised the stakes by letting it be known that several of its top officials, including Sir Kenneth Berrill, the chairman, might resign over the issue.

Sir Gordon has been examining the SIB's rule book as part of the process launched by the government to designate the SIB officially as the regulator of the UK's investment business.

Barclaycard and Access to offer linked terminals

BY DAVID LASCELLES, BANKING EDITOR

BARCLAYCARD and Access, the two largest UK credit card systems, have agreed to allow their cardholders to use each other's electronic payment terminals. The accord marks a further step towards the UK clearing banks' goal of a nationwide cashless shopping system.

Holders of cards issued by American Express, Visa and Eurocard will also be able to use the terminals. Visa and Eurocard are the international organisations to which Barclaycard and Access respectively belong.

At the moment, the combined number of terminals operated in the UK by the two card companies amounts to a few hundred. But the pace of new installations is such that they expect it to reach several thousand by the end of this year.

The terminals, which have been installed mainly in shops and petrol stations, enable shoppers to pay for goods and services by pushing their cards through a slot and punching in a personal identification number.

The information is verified and accounted by a central computer. The process is known as Electronic Funds Transfer at Point of Sale (Eftpos) and is expected to replace many cash and paper-based transactions over time.

Mr Peter Ellwood, Barclaycard's chief executive, said the agreement would enable retailers to have a single terminal on their counters rather than several, and that this would pave the way for a major expansion of terminal use this year.

At Access, Mr Mike Blackburn predicted that scope of the Barclaycard-Access accord would be expanded to include all major issuers of credit, charge and store cards.

Barclaycard's system, which is known as PDQ (Processes Data Quickly) currently has terminals installed in about 300 locations. Access, whose system goes by the name Accept (Access Electronic Payment Terminals) has 250.

The UK's leading clearing banks have been working on a cashless payments system for the retail industry for more than two years now. The Barclaycard-Access accord is not an element of that scheme, but is part of the banks' policy of exploring all possible Eftpos arrangements jointly and individually.

It seems likely, however, that today's accord could form the basis of an eventual nationwide scheme, since it has the implicit backing of several of the major clearing banks through their membership of either Visa (Barclays, TSB, Co-op Bank, Bank of Scotland) or Access (Nat West, Lloyds, Midland, Royal Bank of Scotland).

Birmingham seeks state aid for redevelopment of deprived zone

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

BIRMINGHAM CITY Council is seeking Government backing for a unique partnership with the private sector to redevelop 2,800 acres of a deprived part of the Midlands city.

The Labour-controlled council, supported by the Conservatives, has assembled a consortium of major building contractors – Wimpy, Tarmac, Bryants, Gallifords and Douglas – prepared to inject equity funds into a specially-created development company.

Mr John Douglas, chairman of Robert M. Douglas Holdings, said that the contractors had investigated the whole district proposed and identified a 200-acre area, close to the M6 motorway and Aston Science Park, for the first phase of the project.

He said: "We have been having continuous discussions with the city council, who have been most helpful. It is all beginning to gel."

The city council and the private sector met Mr Nicholas Ridley, Environment Secretary, last year to urge him to allow them to set up their own development agency rather than imposing a development corporation from outside.

Mr Ridley excluded Birmingham when he recently announced the formation of four development corporations, each backed by up to £160m of government funds.

But the city council is now pressing for at least a commitment from Mr Ridley for additional funds, even if the sums are not quantified.

Mr Ray Way, president of the Birmingham Chamber of Commerce which is playing an important role in the initiative, says Birmingham should get the same financial support as a conventional urban development corporation.

Similarly, Mr Jim Cran, West Midlands director of the Confederation of British Industry, said last night: "Birmingham should not lose out because it shows the enterprise to involve the private sector and get things moving. I am sure Mr Ridley will be flexible and recognise this is a pioneering project."

Birmingham's controlling Labour group, though subject to leftward pressures similar to Liverpool, presents a stark contrast in the way it has shunned extremism in the pursuit of new jobs.

The council has gone as far as to assure Mr Ridley the proposed development company will have the independence he seeks and be free from public sector control or guarantees.

Mr Douglas stressed the venture was a commercial operation. It was hoped to attract equity partners other than the five contractors. Of the banks, Citibank, Lloyds and the Midland had expressed interest, he said.

The role of the company would be to buy in land at current prices and provide the infrastructure and service before development or selling on to other development companies.

Crucial to the commercial viability of schemes will be the proposed new Government urban regeneration grant, available only to the private sector and the terms of which have still to be announced.

Birt will head BBC network journalism

By Raymond Snoddy

MR JOHN BIRT, the new deputy director general of the BBC, has been asked to set up a new directorate within the corporation to unite not only television news and current affairs but also all the UK radio journalism of the BBC.

The BBC announced over the weekend that 42-year old Mr Birt, at present director of programmes at London Weekend Television, would deputise for the director general and assume responsibility "for the editorial policy for all news and current affairs programmes throughout the BBC's domestic services."

The appointment is in fact a more radical announcement. Apart from setting policy, Mr Birt, former executive producer of Weekend World, will have responsibility for recruitment, deployment and promotion of all the BBC's journalists.

He will also have direct managerial responsibility for cash and resources for all the BBC's network journalism in both radio and television. The only exceptions will be in regional television and radio and local radio. "It's fairly radical. It's the creation of a new division," Mr Birt said yesterday.

"There will be a single management function with someone at the top and a proper organisation beneath," said Mr Birt, who was approached by Mr Michael Checkland, the new BBC director general, only one week ago.

Mr Birt said he expected to join the BBC within a couple of months with an open mind in how BBC journalism should best be organised in future.

"But I want to look at it from top to bottom in a very fundamental way," he added.

When it is created, and housed eventually under one roof, the new division could become the most influential in the BBC.

A new united department of news and current affairs was one of the priorities spelled out by Mr Checkland to the BBC board of governors when he successfully applied, for the job of director general.

For the director general there is the possibility that uniting news and current affairs will use resources more efficiently by helping to cut out unnecessary duplication.

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190E 2.6: TOP SPEED 134 MPH (MANUFACTURER'S TEST TRACK FIGURE). THE 190 SERIES ALSO INCLUDES THE 190, 190E, 190E 2.3-16, 190D, 190D 2.5.

The new Mercedes-Benz 190E 2.6 will handle as well as any car in the 190 series. Even at 134mph.

The new Mercedes-Benz 190E 2.6 is a driver's car par excellence. Adding a superlative six-cylinder engine to the handling virtues pioneered by the 190 series creates a new performance dimension for compact cars, yet all you might notice are two exhaust pipes instead of one.

You will appreciate more from the driving seat. Tremendous response from the 166-horsepower engine and breathtaking acceleration are just part of the story. So complete is the smoothness and quietness that the 190E 2.6 is in a class of its own. At low revs or high, the electronically-controlled engine's demeanour remains flawless, whether you've chosen the five-speed manual transmission or the two-programme, four-speed automatic.

There are many other ways the smallest Mercedes-Benz displays the finesse of the bigger models in the range. For all the handy compactness of its shape, the 190 is engineered to provide the open road poise, comfort, stability and security of a larger car. Yet its handling stays effortless and inspiring. One motoring writer called the communication from the unique suspension system "virtually perfect."

These qualities apply to all 190 models (besides the new six, you may choose from two four-cylinder engines or two diesels). Because the body's design blends Mercedes-Benz elegance with outstanding aerodynamics, each model provides its own impressive balance of performance and economy. A combination that not only applies to the 190E 2.6 but also to the super-efficient, 108mph, 190D 2.5 diesel.

Painstaking attention to detail in the 190's construction ensures that its level of occupant protection is unsurpassed. Even the pedals swing away from the driver in a crash. The control layout, vision and interior comfort have been approached equally meticulously. Everything is geared to relieving stress regardless of journey length or driving conditions. A vast boot and four doors also make the 190 a sports saloon in which a family can travel.

Add to these aspects the build quality, durability and reliability of a manufacturer whose name is synonymous with supreme quality and you get something else: exceptional value, now and when the time comes to sell. In short, the 190 series has everything you want from a compact car, with everything you expect of a Mercedes-Benz.

Engineered like no other car in the world.

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Company Notices

UK NEWS

Caterpillar protest workers face crucial vote on sit-in

A CRUCIAL vote is being held this morning at the Caterpillar tractor plant at Uddingston, near Glasgow. Workers occupying the factory will decide whether or not to continue the sit-in which began in January when the US company abruptly announced that it would close the plant within 18 months.

Today is also the deadline for the ultimatum issued 10 days ago by the Caterpillar management. It said that if the workers did not call off their protest it would start legal proceedings to evict them, shut down the plant on May 11 and give the manual workers only the minimum statutory redundancy pay. Caterpillar added that it would make no attempt to find alternative employment for the 800 or so workers still involved in the occupation.

The Caterpillar management, operating from a hotel in Glasgow, has finally decided to come out of its corner after almost nine weeks in which the workers have consistently had the initiative. The occupation has won enormous sympathy throughout Scotland. By contrast Caterpillar's name in Scotland is mud.

Mr Malcolm Rifkind, the Scottish Secretary, never passes up an opportunity to castigate Caterpillar's behaviour. His recent public praise of the workers' "spirited and determined efforts to preserve employment" narrowly fell short of endorsing what Caterpillar considers an illegal occupation.

Like many people, Mr Rifkind was outraged because the closure decision came only three months after the company announced a £62m investment programme for the factory – an investment which would have included government aid.

Caterpillar apparently changed its mind about the plant and ordered its closure – along with that of two in the US – when its board decided that its line management was taking an unrealistically hopeful view of prospects for the construction equipment market. Personal letters from Mrs Margaret Thatcher, the Prime Minister, to Mr Peter Donis, the Caterpillar president, imploring him to change his mind, were unavailing.

Despite the company's unyielding stance, the campaign to save the plant still has considerable momentum. Mr Neil Kinnock, the Labour Party leader, visited the plant a few days ago and said it made him come out "raging inside." Mr John Brannan, the leader of the occupation, was fêted at the recent Scottish Labour Party conference. Next Saturday there is to be a Caterpillar rally in Glasgow. In the circumstances the men are unlikely to call off their occupation.

But the occupying workforce has suffered reverses as well as successes. Since the sit-in began about 400 people – members of white-collar and clerical unions – have abandoned the protest and accepted the company's terms, which include help with finding alternative employment and enhanced redundancy money.

James Buxton reports on the fight against a factory closure in Scotland

Although the occupation committee has received support from workers at Caterpillar plants in France and Belgium, in the form of financial contributions and brief sympathy strikes, the company says that output from these plants has not suffered.

It also claims that containers full of Caterpillar parts manufactured before the occupation are leaving Scottish ports despite being blacked by the Transport and General Workers Union – a claim the Caterpillar workforce denies.

Caterpillar believes that the plant is effectively in the hands of a small number of extremists who are refusing to hold a secret ballot on the future of the occupation. It says that some of the workers involved in the occupation have contacted the company to say that they wish to resume work, believing the sit-in to be hopeless.

But a representative of the workers said last week that the number of dissenters wanting a secret ballot is "only a handful" and that such a ballot is unnecessary, although the occupation began with a secret ballot.

A decision to continue the sit-in will however, disappoint not only the Caterpillar management, who are anxious to run down the plant in an orderly way with no compulsory redundancies before July and the possibility of the plant staying open until the end of the year.

Although the Scottish Office has not formally abandoned hope that Caterpillar will change its mind, its aim is to find an alternative use for the factory. But the Scottish Development Agency, which has been entrusted with the task of attracting other users to the plant, is stalled because the sit-in prevents it from sending in experts to assess it. A few days ago Mr Rifkind urged the workers to consider whether continuing the sit-in was in their best interests.

The Scottish Office sees two remote possibilities for keeping the plant going. Caterpillar could transfer it to another construction machinery maker (such as the Japanese company Komatsu which recently bought a Caterpillar plant in the north-east of England), or the plant could be taken over by another owner and used to manufacture Caterpillar spare parts – which is what 60 per cent of the facility's output was before the sit-in.

But Komatsu, whose earnings are also falling, has already said it is not interested. Caterpillar has no wish to see the plant competing with its own highly profitable spare parts operation. It is said to be appalled by the idea that the plant should make what it considers would be "bootleg" spare parts. It wants to sell only the building and the land, and to remove its machinery from the plant.

The Scottish Office is now believed to be thinking of trying to attract manufacturers of other types of heavy engineering equipment in high wage cost countries in Continental Europe to move some of their operations to the 1m sq ft facility, a solution that would involve the company handing over some of its equipment. But the chances of this happening are said to be remote.

If the Catepillar workers vote to continue the occupation the company will have to embark on the legal process of evicting them – a process believed to be fraught with difficulties. It will then have to start trying to remove its equipment. Other multinationals operating in Scotland or considering doing so will be watching with interest.

Shell may screen for drugs

BY LUCY KELLAWAY

SHELL is considering adopting drug screening for its employees. It has asked its medical department to prepare a report on how such measures could best be implemented.

While screening for drugs in common in the US, Shell is the first large private company in the UK known to be examining the problem seriously.

Shell said yesterday that no firm decisions have yet been taken on how or when to carry out the tests. One possibility, it said, would be to introduce the screening on new employees as a first step to wider tests on existing employees.

The company said: "We don't believe that we have a drugs problem. But as responsible employers, we have to look at the matter carefully, and although we are at an early stage, something will probably need to be done."

It said that drug abuse in industry was becoming increasingly widespread, and was a matter of particular concern to the oil industry because much of the work is carried out in potentially dangerous circumstances. The risks of drugs at work are particularly severe on offshore oil platforms in the North Sea, where conditions are hazardous.

The move by Shell coincides with a wider campaign being waged by the Confederation of British Industry, warning employers of the dangers of drug abuse.

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UK NEWS

ICI hires Saatchi for world campaign

By Tony Jackson

ICI has hired Saatchi and Saatchi Compton for a worldwide advertising campaign, estimated to cost close on £10m, stressing the international character of ICI's operations.

The campaign will be the first big effort by ICI to project a corporate image since the 1970s, and its first ever on a worldwide basis.

ICI's board is said to have felt for several years that the group's shift away from UK markets, through both growth and acquisition, has been inadequately appreciated by the outside world.

Saatchi said: "Basically, the positioning is to bring home to people inside ICI and without that ICI operates on a global stage. The perception lags behind reality in the UK, and almost has to be developed from scratch in some other markets."

Saatchi said the chief targets around the world would be Europe, the US and Japan. The campaign would be directed at a mass audience in the UK, and primarily at financial institutions and ICI staff in the US.

"Despite the different levels of awareness, we nevertheless have to find the essence of the company so that it can be positioned in a consistent way across these markets," Saatchi said.

Mr Denys Henderson, who takes over as chairman of ICI on the retirement of Sir John Harvey-Jones at the end of this month, has previously stressed the importance of consumer marketing.

Before moving to the main board he was chairman of the group's paints division which, unusually for ICI, sells directly to the consumer.

Mrs Anne Ferguson, who has been responsible for the review of ICI's image which has led to this campaign, was previously marketing manager of the group's consumer paints business.

Broker recruits equity sales team for Japan

BY GORDON CRAMB

SMITH NEW COURT, the listed UK stockbroker, has recruited an equity sales team for Japan from Prudential-Bache Securities as the final large element of a presence which it is establishing in Asian markets.

The three-strong unit will be based in London. It is headed by Mr Ray Rates, and includes Mr Shinji Yamazaki, also a long-standing employee of Pru-Bache. Despite the current climate of financial deregulation both in London and Tokyo, it is considered relatively rare for a Japanese national to move jobs even from a foreign institution.

The third member is Mr Crispian Besley, and all have been appointed associate directors of Smith New Court Far East, expanding a regional arm built within the past year. Core members of the 66-staff division came mainly from De Zoete and Bevan, now part of Barclays.

Smith New Court Far East, a member of the Hong Kong Stock Exchange, has also now opened a representative office in Tokyo. This adds to research facilities in Singapore and Melbourne and a New York sales outlet.

Mr Lawrence Chui, its managing director, said of the Japanese market: "In terms of competition, no doubt about it: it is severe. What we would like to do is to add value. We don't want to compare ourselves with the giants."

He added, however, that the group's new Japanese service would allow an integrated view of the Asia-Pacific region "providing a range of options on asset allocation."

● Daiwa Securities, one of the big four Japanese broking houses, today opens its London deposit-taking subsidiary. According to Mr Masahiko Aoki, joint managing director, the £50m venture is likely to concentrate initially on foreign exchange and money market activities.

British steel companies call for relaxation of EEC quotas

BY NICK GARNETT

THE British Iron and Steel Consumers Council said yesterday that EEC industry ministers should fully relax quotas on light long products when they meet again in two months time to discuss European steel overcapacity.

The ministers decided last week not to agree any further liberalisation of quotas while they gave Europe's big steel producers more time to agree greater voluntary capacity cuts than the producers have so far offered.

Eurofer, the association of main EEC steel producers, has proposed cuts of more than 15m tonnes, an exercise partly designed to fend off the rapid dismantling of the quota system which the EEC Commission has been seeking.

These capacity cuts have been judged by the ministers as insufficient to cope with excess capacity which the Commission says will amount to as much as 32m tonnes by 1990.

Mr John Safford, director general of the consumers council whose member companies and trade associations use about a half of all the steel consumed in the UK, said the ministers had "failed to grasp the nettle."

The Eurofer offer on light long products which include wire rod, light sections and merchant bars went a long way to meeting the Commission's minimum requirements, said Mr Safford.

Because of this, and the willingness of some non-Eurofer independent producers to allow market forces to sort out Europe's excess capacity, ministers should have agreed last week to dismantle quotas on these products.

Rowntree to build R&D centre

BY CLAY HARRIS AND LISA WOOD

ROWNTREE MACKINTOSH, the confectionery manufacturer and food retailer, is to build a £2.9m group product research and development centre at its York headquarters in the north of England.

The parent company also plans to drop the Mackintosh from its name and become simply Rowntree from June 30. Rowntree Mackintosh Confectionery will continue to be the main operating company in the UK.

The York facility will not replace individual R&D operations within its operating divisions, Rowntree said. "This corporate research is intended to encourage synergy between different parts of the business and create new product opportunities."

Subject to planning permissin, work on the new R&D centre will start in June for completion in May 1988. It will employ about 40 research staff.

The decision to change the group's name reflects the diversification in the company's business since Rowntree and John Mackintosh & Sons, both confectioners, merged in 1969.

Recent acquisitions had made the old name less appropriate, according to Mr Kenneth Dixon, chairman. It has bought snack food manufacturers, such as Sooner Foods in the UK and Tom's Foods and Sunmark in the US, and also operates speciality retailers.

The change must be approved by shareholders at the annual meeting on April 28.

CONSTRUCTION

Old tower block becomes luxury flats

BY JOAN GRAY, CONSTRUCTION CORRESPONDENT

WILTSHIER CONSTRUCTION *is working on a project* for ViVi developers to transform a run-down 20-year-old tower block, bought from London's Wandsworth Council *public housing authority* for £1.67m, into luxury flats.

The transformed Battersea *tower* block — renamed the Park South Development — will have penthouses *selling* at 350,000 and a swimming pool, gymnasium and squash courts *in the basement.*

The building—at 21-storeys one of the highest residential towers in London—is surrounded by other council-*owned tower blocks,* many also now being prepared for private sale, in an area once known for vandalism, theft, mugging and drugs.

It also has spectacular views over Battersea Park, the listed disused power station, and—distantly the Houses of Parliament and Crystal Palace, and can claim to be within a short drive of Harrods and the City.

As a result, record producers, MPs, estate agents and solicitors are flocking to buy flats in the transformed block, which the previous council tenants could hardly wait to get out of. Now, the apart*ments are sold as soon as they* become available.

Converting the building from a *rundown council tower* to a luxury high rise is a £1·8m project which has presented Wiltshier with few challenges.

"There were no structural problems because it was a good, well-built block," said Mr *Bob Hickinson, site mana*ger.

The tower had been built to a good *structural standard,* with 6 inch thick concrete walls and *double-glazed* windows, most of which were still in a fit condition to be retained.

There were no problems with condensation. And though the block was partly system built, with precast pebbledashed concrete panels hung on a poured concrete frame, none of the panels had come loose and all the original cladding has been retained.

The main changes have been in improving the security and heating systems, replumbing and rewiring, and *transforming its previously* unprepossessing appearance.

The bare, open, grey, stained and graffiti-covered children's play area underneath the tower has been enclosed and metamorphosed into an indoor swimming pool bordered with tropical lilies and palms, a squash court and a gymnasium with exercise bicycles, rowing machines, *treadmills and* weight trainers.

The vandalised bare concrete entrance and *lift* hall has been given maximum security doors and video entryphones.

The entrance hall walls have been clad with pink and grey marble, and a matching marble reception desk has been installed for the security guard on duty 24 hours a day.

Little work has been needed on most of the 80 large flats in the block other than redecoration and refitting with luxury kitchens and bathrooms.

The major change has been at the 20th floor, where the top floor flats have been converted into the bedrooms for the luxury penthouses Wiltshier has built on the roof.

Improving Yorkshire hospitals

TAYLOR *WOODROW* CONSTRUCTION (NORTHERN), of Darlington, has won its second contract for construction works at Staincliffe District General Hospital, Dewsbury, South Yorkshire. The company is part of a joint venture with the CWS Engineers and William Steward and Co, which has been awarded a £1.2m contract to extend and improve the pathology laboratories at the hospital. The same *joint venture is* already working on an £18m extension to the main *hospital buildings, which is due* for completion in July 1988.

Taylor Woodrow Construction (Northern) will undertake works worth £730,000 on the pathology laboratories project, which is scheduled for completion in December 1988. The order, placed by the Yorkshire Regional Health Authority, is part of a £30m phased development scheme for the hospital. The laboratories project will entail construction of a two-storey extension, with a floor area of 1,000 sq metres. The structure will *have a steel frame on concrete* strip and pad foundations, precast concrete floors, masonry cladding and a slate pitched roof. Refurbishment works to the laboratories include partioning and roofing.

City of London offices scheme

McLAUGHLIN & HARVEY has won the following contracts: The construction of an office block for Milaral Securities at 16-21 St John's Lane, City of London, under a 61-week contract for £1.9m. The office building is L-shaped and divided into two sections, giving versatility on *letting. Construction work* has started on a meat production factory at Kentish Town Industrial Park, worth £1.9m over 52 weeks. The construction will be part single, part two-storey factory and offices, including a refrigeration plant. It will also include car parking, service *yards and soft landscaping.*

A contract for the internal and external refurbishment of York House in Westminster Road for the Special Trustees of St Thomas's Hospital Estates has started, at £1.57m. The building will be partially occupied during construction.

A term contract covering maintenance, refurbishment and small new works *in the Ilford east and* west area has been awarded by the PSA for a period of three years at £200,000 per annum.

★

MILLER CONSTRUCTION will have built seven meeting houses for the Church of Jesus Christ of *Latter Day Saints by the end of* this year. Currently the company is building at Milton Keynes, Yate and Tunbridge Wells. The three buildings, worth about £1.5m will be completed by late summer. Miller Construction will then begin work on a further meeting house in Aberdeen. The meeting houses are single-storey, some 5,500 sq ft in floor area, with concrete tiled pitched roof on part steel portal frame, part timber roof truss construction. Concrete floors with cavity wall construction and hardwood windows. Works include car parking areas, pavings, store, landscaping and fencing.

WALTER LAWRENCE WESTERN is to carry out the *£320,000* refurbishment of a Victorian building known as the Hampshire Club, at 32 Southgate Street, Winchester, Hampshire, on behalf of Harman Court. The Victorian facade, which has ornamental quoining and pillars, a decorated pediment together with bay windows on *the ground floor* will be retained. The original balustrading to the *stairs* and the oak panelling are to be retained and restored. The refurbishment work, which will provide 6,900 sq ft of offices, will be carried out over a 21-week period with completion expected in August.

★

A Birmingham practice of consulting engineers has begun work on a *£590,000* project to alleviate flooding in Sutton Coldfield. The MRM PARTNERSHIP is organising the work to provide a sewerage scheme for the Four Oaks Estate and neighbouring residential property, for the City of Birmingham Council.

Major retail development in Bristol

Richmond-based SCHAL INTERNATIONAL has been appointed construction manager to lead the project team on a £38m retail development in the Broadmead area of Bristol for Ladbroke City and County Land. The three level development, designed by Leslie Jones, includes 322,000 sq *ft* of retail space and parking for 1,200 cars. The exterior's fine architectural detailing in brick *reflects the origins of part of the* site where the old Newgate Prison was located. Schal's commission includes value engineering analysis prior to final design, programing phased to theacquisition of property, and budget control. Demolition is to start in June with the first phase of construction following in October and completion targeted for 1989.

★

AG TILES has won two orders together worth £500,000. The company will supply 250,000 tiles for Manchester-based Ungers Meats, a subsidiary of Campbells Soups. The *contract,* worth over £250,000, was placed by Williamson Corrosion of Manchester. AG Tiles has also won its largest single order from Hong Kong. This is for wall tiles at the Sai Wan Ho commercial and residential project, one of the largest single developments *under construction in Kowloon.*

Pollution control in Ireland

FRENCH KIER subsidiaries throughout the UK have been awarded new contracts valued at over £28m. In Northern Ireland, Charles Brand—the oldest Kier Group company — has been awarded the civil engineering contract for an extension to the New Holland water pollution control works (£5.86m) in Lisburn, Co Down, by the DOE (NI) Water Services.

Kier Southern has started a fitting-out contract as part of the Terminal 3 refurbishment programme (£1.2m) for Heathrow Airports. Also at Heathrow, Kier is to build a four-storey offices block (£2m) for the Abbey National Pension Fund. In Reading, the company has won the contract for the inner centre distribution road (£2.04m) for Berkshire County Council and at Hampton Water Works it is to build a low lift pumphouse (£1.36m) for Thames Water Authority. Kier Southern is to build a 100-bedroom hotel in Wokingham (£3.01m) for Queens Moat Houses.

In Bath, Wallis Western is to build a new shopping development, "The Colonnades" (2.75m), for Spicemoor. The Colonnades comprises a prestige shopping mall, with scenic wall climber lifts and offices, all built behind a retained Georgian listed facade, part of the Royal Bath.

Another Kier subsidiary, Robert Marriott, is to build 36 retirement bungalows at Northampton (£1.34m) for Retirement Appreciation, and at Milton Keynes, a factory and offices (£800,000) for Samseti UK and the Broughton Lodge Hotel (£770,000) for Charles Wells.

Other Kier contracts include refurbishment of three blocks of four-storey flats (£1.5m) for the London Borough of Hammersmith and Fulham, 78 houses (£1.5m) for the Metropolitan Borough of Solihull, thermal upgrading of 94 houses in Stirling (£500,000) for the Scottish Special Housing Association, an effluent treatment works in Peterborough (£200,000) for British Sugar and fitting-out offices in Bristol (£325,000) for Arthur Young.

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Bank of Scotland

How the Sassenachs spawned an invasion

James Buxton on a strategy that outflanked the UK clearers

A BANK based in Edinburgh, small compared with the other UK clearers and lacking a branch structure south of the border, might not seem well-placed to increase its share of the UK market and to boost its profits.

Yet in the past seven years the Bank of Scotland has done both, principally through a series of innovations in the English market, in which the bank has deftly turned its apparent disadvantages into advantages.

The man principally responsible for this is Bruce Pattullo, who took the job of treasurer (chief executive) in 1979. Four years before, in 1975, the gentlemen's agreement that Scottish banks did not expand south of the border and English banks stayed on their own territory had been dramatically broken when National Westminster opened two branches in Scotland.

"It was the best thing that could have happened to us," says Pattullo, a tall, rather shy man whose courtesy conceals a formidable brain. "The net benefit of moving into the English market was many times greater to us than moving into Scotland was for them. It gave us a heaven-sent opportunity to go to England."

The decision to compete for the roughly 20 per cent of the English banking market which is not under the sway of the major clearers was reinforced by knowledge that growth prospects for the Scottish economy are not spectacular. The Bank of Scotland had a much smaller involvement in international lending than the other UK clearers and eschewed the idea of purchasing an overseas bank.

The Bank's approach combined boldness with Scottish carefulness—an indication of which are the rights issues of 1984 and 1985 which give the Bank of Scotland the strongest balance sheet of all UK banks except for TSB, but diluted earnings per share. Pattullo considered the obvious option of building or buying a branch network in England. But there were clearly limits as to how much a bank, with deposits at November 1985, of £6.2bn (compared, for example, with those of NatWest, the biggest clearer, of £5.7bn at September 1985) can buy.

Further, as Pattullo says: "I wouldn't argue that branch structures are a liability rather than an asset, but the time when they become one may not be far off." The bank instead built up a network of nine regional offices in provincial English cities which concentrate on small to medium-sized companies. It plans to expand to 15-20 such branches over the next five years.

But in order to tap the personal banking market in England, the Bank of Scotland decided to market some of its banking products without a branch structure. First, in 1983, it launched its money market cheque account—an account on which deposits of more than £2,500 earn interest related to money market rates while giving customers complete freedom to withdraw without notice, and the facility to write cheques. At the time Bank of Scotland marketed it—advertising it heavily on TV and in the press in the south-east—none of the major clearers offered such an account.

Maverick

"It was a staggering success," says Pattullo, though he does not quantify it. The Bank of Scotland had been afraid that some of its established customers would slip across to it from their non-interest earning accounts, but this happened only to "a very minor degree."

"We sweated over the decision, thinking we'd be seen as a maverick," he says. "But it actually should have been us that did it as we were the outsiders. A bank with a branch structure in England would be afraid of stabbing its managers in the back and eroding the profitability of its branches."

From this the bank went on to sell financial services in England through other organisations. Through its finance house North West Securities it allied itself with the Automobile Association to market a Bank of Scotland Visa card, a revolving credit facility, and a personal loan to the association's 6m members. "They've got the customer base and we've got the products," says Pattullo.

The bank also went into the mortgage business by means of links established with 17 separate life assurance companies. With the Alliance Building Society it created Bank Save, a loan scheme by which the building society's customers can take out a personal loan (called Scotloan) of up to £5,000. This has brought in several thousand new customers.

Through money market cheque account and a number of joint ventures with stores groups, says Pattullo, "we have established a series of data banks and pigeon holes with varying rights to cross-sell into the different markets.

Probably the boldest move to date in Bank of Scotland's drive to establish itself south of the border has been the introduction of its home and office banking (HOBS) system. The Bank of Scotland was the first UK bank to market a system by which a customer can sit at home and tap into his bank account via a keyboard and a TV set tuned to British Telecom's Prestel information service, make transfers between his accounts, and pay regular bills.

The beauty of HOBS for Bank of Scotland is that the Bank can acquire customers in England who may never have seen a Bank of Scotland branch. Some 60 per cent of HOBS customers had no previous connection with the bank. Pattullo believes that the English banks are inhibited from following suit because they need to protect their branch structures—but they claim that they are waiting for the development of a simpler delivery system. Pattullo is convinced that in a few years' time home banking will be the norm for most people.

However, the bank implicitly acknowledges that the initial response to HOBS was relatively slow, especially among non-business customers. But Pattullo says: "HOBS looks as if it's been taking off since mid-1986." Although it was aimed at small clients such as dentists and farmers, it has also won customers in the middle to lower end of the corporate market, including fund managers and insurance brokers, as well as district health boards and local councils.

"It's not going to fail, it's going to be a considerable success," he says. "I'm absolutely convinced that all the other banks will do it, but the longer they hold off the better for us." So far only the Clydesdale Bank, the Scottish offshoot of the Midland, has—just in the past few weeks—emulated Bank of Scotland with a home banking system.

Though the more eye-catching of Bank of Scotland's initiatives have been aimed at gaining market share south of the border, its home market naturally remains Scotland. The Scottish banking market is reckoned to be overbanked, with a high number of branches per head of population compared with the rest of the UK. The Royal Bank of Scotland and the Clydesdale fight doggedly for market share along with the Bank of Scotland in virtually every town in the country; they have now been joined by the TSB.

But Pattullo says that between 1979 and 1985 Bank of Scotland's share of the market held by the three Scottish clearing banks (before the arrival of the TSB and not counting the non-indigenous banks) rose from 34 to 41 per cent. A recent analysis by the brokers Wood Mackenzie concluded that Bank of Scotland had increased its share of the whole Scottish market by three to four points between 1977 and 1982, and that since then it had "more or less held onto these gains," having around 40 per cent of the Scottish market, a point or two below the Royal Bank of Scotland.

When Pattullo arrived at the top of the Bank of Scotland in 1979, he pointed out that only a bank with such a small share of the UK retail banking market—perhaps 2 to 3 per cent, though precisely comparable figures did not exist then—could possibly hope to make large increases in its market share. The bank now has 4 per cent of sterling assets in the UK retail banking market and believes it has had the fastest growth of assets of all the UK banks.

But the Bank does not reveal how its market share is split between the Scottish and English operations. Wood Mackenzie, however, believes that in terms of growth, Bank of Scotland's English operations have lately accelerated and performed best. The multi-pronged approach to the English market has paid dividends.

Bruce Pattullo: a heaven-sent opportunity to go to England

Competition policy

The case for cartels

Tony Jackson reviews a controversial thesis

"I DO not accept the theory," said Lord McGowan, the autocratic head of ICI, "that competition is essential to efficiency." Cartels, he told Britain's House of Lords in 1944, meant lower prices, stable employment and orderly expansion of world trade.

Seductive though this view has always been to the struggling industrial manager, it has actually been short of support elsewhere for the past hundred years or so. Lately, though, it has staged a comeback in academic circles; here is a new book from a Harvard Business School professor which gives it at least two cheers, and in a chemical context at that.

Industry in the late twentieth century, says Joseph Bower, is in deep trouble. What is true of petrochemicals—his particular topic here—is true of steel, forest products and capital-intensive manufacturing in general. "Conventional competition leads to a socially undesirable result—chronic waste. Everyone loses."

For Bower the free market is a fantasy which never existed. In petrochemicals, otherwise intelligent companies have gone on absorbing losses well beyond commercial logic. Market entry is no problem—developing countries, intent on their own version of the Japanese miracle, do it all the time. The problem is market exit.

In theory, the least efficient producers get out first. In practice they do nothing of the kind. The first out are often the best managed, for which the unkindest cut is leaving the market to "the competitor whose irresponsible moves or government subsidies caused the problem in the first place." Those left are trapped into beating each other to death.

The snag is, says Bower, that managers find they cannot solve the problems of their own business within the existing framework of the industry. For individuals to be free to act, the framework has to change. And—the crucial step—"in order to change an entire industry's structure, it is necessary to deal with the government. Structure is strategic and strategy is political."

With the exception—of course—of Japan, governments have been more a help than a hindrance; in Europe, the authorities mount dawn raids on plastics producers and fine them for price rigging. Bower is dismissive of this: "What is needed is a MITI pointing the way and encouraging progress rather than a group of lawyers threatening criminal action on the basis of laws grounded in the history and the ideological premises of 19th-century industry."

It may be, he concedes, that the Commission has a more enlightened motive. Perhaps Brussels is promoting industrial Darwinism as the only way to stop member states claiming strategic rights to capacity in everything. Perhaps primeval competition, waste and all, is preferable to an industrial version of the Common Agricultural Policy.

Outside the narrowly European context—and this is a genuinely international book—Bower argues that governments should be more sympathetic to individual cases, rather than clumsily applying general prohibitions, and that managers should accept the political dimension of the tasks facing them. If only, he implies, everyone behaved like the Japanese.

There is a lot of wishful thinking in that, but it is in the nature of these issues that the problems should be more persuasive than the solutions. Good analysis never hurt anyone, and industrial managers in the chemical industry or out of it could read Bower's book with profit. And, indeed, with pleasure; Bower has the knack, rare among academics unless American, of writing clear and simple English.

**When Markets Quake*, by *Joseph L. Bower. Harvard Business School Press, £14.95. 240 pages.*

Business courses

The information advantage: the first European conference on information management, London. May 13-14. Fee: Conference Board associates and SIM members $495 ($595 after March 23); non-associates and non-SIM members $595 ($695 after March 23). Details from the Conference Board, Avenue Louise, 207-Bte5, B-1050 Brussels, Belgium. Tel: (02) 640 6240. Telex 63635.

The 6th annual competition law conference—a review of recent developments, London. April 28-29. Fee: £325 + VAT. Details from ESC, Kirby House, 31 High Street East, Uppingham, Rutland, Leics LE15 9PY. Tel: 0572 822711. Telex: 341352 EURCON G. Fax (0572) 821287.

Organised direct mail for increased profitability, London. May 11. Fee: £120 + VAT for members of IM; £140 + VAT for non-members. Details from IM Marketing Training, Moor Hall, Cookham, Maidenhead, Berks, SL6 9QH. Tel: 06285 24922 ext 29.

Quality assurance, London. April 28-29. Fee: £460; £483 after April 14. Details from Miss J. K. van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111. Telex: 896827 TACS G/Ref 1202.

Japan Design Study Tour, Tokyo. May 29—June 6. Fee: £4,250. Details from Yvonna Demczynska, The Design Council, Marketing Services, 28 Haymarket, London SW1Y 4SU. Tel: 01-839 8000. Extn. 4146.

Infomatics: How to Document Information On-line. London. May 16-17. Fee: £395 plus VAT for the first delegate; £370 plus VAT for additional delegates from the same company. Details from The Infomatics Resource Centre, 2 The Chapel, Royal Victoria Patriotic Building, Ftizhugh Grove, London SW18 3SX. Tel: 01-871 2546. Telex: 299180 MONINT G.

Corporate performance analysis (and productivity), London. May 7/May 13-14. Fee: May 7 £150; May 13-14 £300. Details frim Nigel Meade, Department of Management Science, Imperial College, Exhibition Road, London SW7 2AZ. Tel: 01-589 5111 ext 7123.

Franchising, London. May 19-20. Fee: £460; £483 after May 5. Details from Miss J. K. Van Wycks, Seminar Division, Crown Eagle Communications, Vernon House, Sicilian Avenue, London WC1A 2QT. Tel: 01-242 4111. Telex: 896827 TACS G'Ref 1202.

The Frontiers of management, London. June 18-19. Fee non-members BFr 82,000; Members (AMA/I) BFr 73,800; non-members BFr 82,000. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19/11. Telex: 21.917, 61.748. Telegrams Manacentre. Telefax 32/2/513.71.06.

Why it will not be easy to kill off socialism

JOHN LLOYD

THE PRIME MINISTER is not very like Stanley Baldwin in any except one, crucial respect, that of leading the Conservative Party and the country at a time when a two-party system has changed into a three party system. Both want to try to change it back. Baldwin—as Roy Jenkins put it in his recent biography—"wanted a house-trained Labour Party" as sole opposition. Mrs Thatcher, for her part, appears to want a house-trained alternative Conservative Party.

She continues to make it clear that she wishes to uproot socialism from British political life. At the same time, Mr Norman Tebbit, sending sighting shots over the advancing Alliance, warns that it will "let socialism in the back door," both because its electoral success may deliver largest-party status to a Labour Party which could not do that unaided, and because Alliance leaders are still socialist in heart and future deed.

The only conceivable opposition which Mrs Thatcher and Mr Tebbit now regard as legitimate, then, is one purged *of all "socialism"* — a socialism, moreover, defined very widely indeed. In her speech to the Conservative Party's Central Council on Saturday, Mrs Thatcher characterised all three *main* opposition parties as Socialist —*"full-blooded" (Labour)*, "half-hearted" (SDP) and "half-baked" (Liberal).

The Prime Minister has, of course, *highlighted the most* important long-term question of domestic politicis, not just in the UK: If socialism is not to survive, then the dominant political struggle in most western democracies for nearly a century is drawing to a close, or finding a radically new form. And because it is so crucial, it is time some *rudimentary definition* of what is meant by socialism *was introduced. Only then* can we make some judgement on what Mrs Thatcher wants to kill, and whether it is worth preserving.

If by socialism is meant what is now tagged as "loony leftism," then the Prime Minister would have little argument from the Labour leadership. It does not take a *leaked letter to* show that the parliamentary Labour Party is, *in the main*, fed up with the mixture of sexual *politics, anti-police* and pro-IRA attitudes which are *adopted by some constituency* parties and a few councils, especially in London. It will clearly be part of hustings politics for the Conservatives and the Alliance to represent *these painful* boils on Labour's neck as cancerous growths *too deep for surgery* — but outside the electoral constraints, they do not constitute a socialism which any democratic Socialist would defend for a minute.

Is it, then simple collectivism which the Prime Minister seeks to eradicate? Here, of course there *is an* argu ment—but it is not one which is confined to the Conservative and Labour Parties. It is between all parties and within all parties, too: and it is an argument, as Mr Michael Heseltine's new book shows, which remains acute within the Conservative party itself. Mrs Thatcher's hostility to collectivism takes on not just the Labour Party, but its manifestations throughout society.

She told the Evening Standard last Tuesday that she wishes to entrench con*servatism* "as almost part of the habit and custom" of British *political* life. But there is another habit and *custom already* entrenched, and apparently valued: that of collectivism *itself. In health* and education, in social security, in the network of support and subsidies to corporations and individuals — collective provision, much of it inspired by Socialists, or at any rate by Labour governments, is a largely unquestioned part of *life. Further*, the larger tasks which our society must see performed—*as providing for* the massed ranks of the unemployed, or making good deficiencies in training and skills — are undertaken naturally, it would seem, by the state.

The Government; now, it seems, wishes to "do something" about the inner cities (a leaf out of Mr Heseltine's book, here!): much will be made in this endeavour of partnerships between government and private capital—but it will be the state, or collective provision, which will do most of the something.

And therein lies her problem. A minimalist definition of socialism — defined as collective provision to counteract some of the effects of the market, and collective effort to address specific problems—*still survives*, even thrives, outside the Conservative rhetoric. *Indeed, her own* government has been recently rather concerned *to prove* how good their collective provision in health, and in education is or at any rate is going to be. It is impossible to conceive of opposition parties which would not offer *some form of this* minimalist definition of socialism as their *platform*; and *difficult to* believe that a programme which, for example, promoted greater equality, backed by a team which appeared credible as a government, would never gain assent.

But therein also lies a problem for Socialists. Are they to be content with this definition of themselves and of their goals? Even where they wholly reject extremism; even where they see nationalisation as no longer of importance; even *if they* accept that previous Labour governments have *often in practice* been little more than mildly collectivist—*would they be content* to rest behind a definition which includes Mr Peter Walker and Mr David Steel.

There are some in the Labour Party, and in the Alliance, who believe that is all that the political traffic will presently bear. But there is a further complementary definition of socialism. It adheres round those move*ments towards* a *greater* participation in and responsibility for management and ownership.

In the 1980s, it has taken a new *form* — a "Conservative form," as against the 1970s "Labour" form. Where, in the mid-seventies, discussion and plans depended on union structures and public ownership, they now depend on individual activity and personal ownership. That ownership can be expressed both in the relatively passive possession of a few shares of BT by anyone, or in the active ownership of a slice of the National Freight Corporation by an employee shareholder.

It is not beyond the remit of socialism to argue for the involvement of wider and wider circles of workers and citizens in the ownership of and influence on companies which provide their living and their security. For where nationalisation is seen to be *limited, and trade unionism* is clearly seen to be unable to effect a radical transformation of power relationships, why should not socialism find in the market and in personal ownership a means for the enfranchisement of those presently outside of the narrow, often self-perpetuating cliques which control our lives, living standards and leisure? At the heart of market socialism is the belief that ownership and self management within a broadly market environment is the working equivalent of political democracy.

Is that not worth saving from extinction?

INTERVIEW

A breath of Airco

Christian Tyler talks to Richard Giordano, until recently Britain's top paid businessman

Ashley Ashwood

RICHARD GIORDANO, the American chairman of British Oxygen, is a member of the super-smart New York Yacht Club. Naturally, he took part in a private sweepstake on the result of the America's Cup. For a best-of-seven final there were eight permutations in the hat. Mr Giordano drew the ticket for a 4—0 American win, the score that eventually gave the US its precious cup back.

If, as some people believe, luck can be earned then Mr Giordano's good fortune on the sweepstake should come as no surprise. For this American head of a British multinational company with an impressive record of profit growth is regarded as one of the most success*ful managers* in the country.

He is also the highest paid *after the fun-loving millionaire*, Sir Ralph Halpern, of the Bur*ton group. Public interest in* Mr Giordano's earnings — the *equivalent of nearly £773,000* last year — has rather obscured *his achievements*. Even Chinese Vice-Premier Li Peng joked about the *salary* when Mr Giordano met him in Peking two years ago.

Cosmopolitan, rather than mid-Atlantic, Mr Giordano has none the less brought a kind of east coast American chic—slick but not flashy — to the staid business of industrial gases on which the BOC empire in 48 countries is still, despite a growing medical arm, largely based.

The company headquarters at Windlesham in the Surrey green belt, built for £20m on the site of a convent home for wayward girls, is bold but beautiful, and reminiscent of *the best corporate architecture* of New England. The company *has won praise for the scope* and appearance of its annual *reports (though it lost its campaign to promote inflation-accounting). The chairman* and chief executive's own appear*ance—tall, well-dressed, Italian* good looks — suggests the Harvard *lawyer* he *once* was rather than the industrial *manager he is.*

When he is in England (about a third of the year) and he talks about "us," Mr Giordano means "us British." He also rejects the suggestion that there is anything particularly American about the way he manages the business.

As head of Airco, the US company that BOC bought in 1978 in an acrimonious takeover, he was running a highly centralised domestic outfit. "There was no subsidiary that I couldn't visit in a day by corporate jet, and we had *information systems* that would choke a horse." At BOC, he *found himself* running a worldwide empire of enormous cul*tural diversity*, extending from Zimbabwe to Japan.

The takeover, incidentally, was a crisis in his career. "I *thought surely I would get fired* and be able to sail my boat (a 44 ft sloop) round the *Carib*bean." he recalls. He even bought a bigger yacht and had to sell it again. "Except for that one brief period I haven't been tempted to go outside."

Coming to BOC meant adopting a completely different style *of management, he says, though* the company had already shed *its old-school-tie ways.* It meant shorter lines of communication, greater trust and co-operation between managers, *less information at the centre*—long-distance telephone calls, not floods of memos.

Mr Giordano believes managers have to curb their cruder inclinations. "A lot of managers have the competitive idea — 'how do I get up the slippery pole? The first thing I do is screw my associates.' You want aggressive, tough guys but you want them to fight in a team spirit. It's a bit like the family. The warrior must go out and fight for the food. But he must come back and be gentle with the children."

The successful industrialist combines management skill, leadership, *resilience — and* luck, according to Giordano. *"Leadership* is very much the gift of one's personality. I think the arts of management can be learned; they are primarily experience-based.

"People don't follow where they *don't have trust.* Leadership means you have got to be *able* to step back from failures and be able to keep going. I *look* for a man whose nose has been bloodied, as mine has been many times.

"The world *is always looking* for the golden boy. And that is *a temptation in companies too.* We must be careful to assess *people's qualities*. We want to see how people have behaved *in adversity." One senses* he would like his managers to *have* the temperament of the lone yachtsmen he admires so much. *He* calls them "extraordinary people": courageous, not afraid to be alone, humorous "and surprisingly modest." BOC sponsors a quadrennial single-handed round the world yacht race, which Giordano says generates great enthusiasm among his scattered customers and staff.

What does he think of British *management in general? Gior*dano stops pacing the floor to *weigh his words.* "The problems of British management go *back decades.* But let us look at the 70s as, I guess, a watershed. A *fellow* came to work in the morning. He could not *fire* anybody. He did not set the wages. He did not set *prices. His own pay* was probably frozen. He was hardly *managing* the business.

"There was a substantial change of climate after 1979 (year of the Conservative election victory)—I am not saying this as a political statement or as a tribute to this particular Government, but as a fact that the climate altered radically. It was partly political, partly the cold water of world competition —foreign exchange controls came off. I believe that the unions became more reasonable.

"Since that time we have seen a *lot of British* companies doing well and we have seen the *emergence of a lot of good* British managers. I think there is a *generation gap*, an interesting gap between the generation *that was running the show* prior to 1979 and the generation that has emerged since, which I think is doing a very good job.

"If you look at BOC, we've got half the number of employees now and we are probably producing 30-40 per cent more.

"*Having said all that*, we still have precious few world players —by that I meant companies that compete with all comers. We probably have a smaller number of world players per capita than Sweden or Switzerland. Why? I think, going way back, British managers have tended to be insular. In some respects the protection of the Channel has actually worked against us. That's very hard to change.

"My views are not black and white. *Given US industrial* performance you have to be rather careful *before* lecturing people *about America as* the reference point for management. The history of big mergers there is pretty damn poor.

"The BOC-Airco merger, I think, was a very successful merger. Why was it successful? One of the things I didn't do when I came over here was attempt to use American management as a reference point. Americans have a bad habit of kind of going out into the world with a fixed position and judging all others relative to it. I think we have avoided that. It would have been very easy for BOC *to fall into* a Yank-Brit tug-of-war."

Perhaps because of his Italian immigrant background, Mr Giordano appears to have no political allegiance to the conservative governments on each side of the Atlantic. He sees President Reagan's Administration, after its invigorating *start*, as a story of missed opportunities. He seems to regard *Mrs Thatcher* more highly, as the catalyst of improvements in the British climate that are still underestimated by the British themselves. What the country lacks now, he believes, is a real two-party system—by which he *means it lacks a credible, non*-socialist opposition party.

"*In the last half-dozen years* Britain has done a pretty good job. *If I was a company having* to set up in Europe, it is Britain *I would choose.*

"Industrial relations have improved to a degree that has left all our competitors behind. I can get more work flexibility in the UK now than in most parts of the US: what I cannot get is the freedom to shut down a plant and move, because Britain is a small place."

Where Giordano sympathises with the new conservatism is in its belief in the virtue of money incentives, whether for tackling long-term unemployment through the tax and benefit system or for getting the best out of company managers.

BOC's executives are paid partly by results. But incentive *pay is not supposed to comprise* more than half of salary, or a third of the total package. When he became chief executive Giordano felt "uncomfortable" about staying in the scheme and his own pay, fixed on a US scale and in dollar terms, is no longer tied to the company's performance. He thinks the chief executive's role as prime decision-maker rules him out.

"Performance-linked pay enables a lot of British managers just to make money when they would *not have had* the courage to go ask for it in *the form of salary. You can* have years when the company *didn't do very well but when* everybody busted his hump. So we have a system in which bonus is paid on a matrix in which *half* is related to company performance and the other half to a set of individual goals negotiated with that individual. It caps out at 50 per cent of salary. The effect is that in a good year, if he (the executive) was a bum we don't give him very much money.

"Those kind of systems are better. They are not liked by some managers because they are seen as requiring too much subjective judgment. A lot are squeamish about going to subordinates and saying: 'You know, Charles, you really didn't do a very good job this year.'"

If the 53-year-old Giordano has *any ambition to move on to* bigger managerial challenges, *he is not admitting it. He has* been with industrial gases since *1963 when he got the job with* Airco through the law firm he was *working for.* "They asked me to go, so I went like a *good fellow. The 50s were des*cribed as a silent generation. We all went and did what our parents expected us to *do. I would say the message in the* household was to succeed at *something. Failure* was not highly prized. I think I have *always been conscious of want*ing to succeed, but the shape of your *ambition does change as* you get older."

The *chairman of BOC* describes his company as a complicated *high-technology* business — more so than City analysts *seem able* to understand, he says — with some very tough international competitors. "I have to feel comfortable in Asia and India, I have to get to feel comfortable in Japan. The international pressure is very challenging. I think it's a fun business to be in."

1934: Born New York; educated Stuyvesant School, NY; Harvard University and Columbia Law School.

1956: Married Barbara Claire Beckett (one son, two daughters).

1961: *Called New York bar;* practised with Shearman and Sterling.

1963: Joined Airco.

1978: Chief executive, Airco.

1979 (January): Joined BOC board.

1979 (October): BOC Group managing director and chief executive.

1985: BOC chairman and chief executive.

Put judges on the box

JUSTINIAN

IT MAY be that the authorities will never allow *TV cameras* into British courts, as they are permitted in some American state courts. But an experiment by Channel 4, designed to report what happens in the courtroom in a fuller—and hence perhaps fairer—manner than can be achieved by a newspaper, took a step nearer reality when the European Commission of Human Rights held, a fortnight ago, that an application alleging a violation of the guaranteed freedom of expression was admissible.

Channel 4's experiment centred around the trial, in January 1985, of Mr Clive Ponting, a civil servant in the Ministry of Defence, charged with *communicating* information to an unauthorised person, contrary to the *Official Secrets* Act. The TV company had made plans to obtain a daily transcript of the evidence to be adduced at the trial at the *Old Bailey*. Extracts of the evidence, which would represent a fair and accurate summary of the day's proceedings, were then to be read out by actors in a neutral and undramatic manner.

A half-hour programme, Court Report, in the late evening of the day's court proceedings was to be presented as an extended news report, not as a dramatic reconstruction of the court scene. A pilot programme was produced and this encouraged the programmers to forge ahead with their plans to cover the *Ponting trial, which* was attracting widespread public interest.

However, they failed to reckon with the nervousness of judges about any coverage of court cases other than in the traditional manner of a shorthand note by a journalist. Even tape-recorders are strictly not permitted.

Although *Channel 4's* solicitors had sent papers describing *the station's plans to* the Attorney-General, the Director of Public Prosecutions and the Court Administrator at the Old Bailey — all of whom had expressed interest — the judiciary feared that what was afoot was a re-enactment of the trial in dramatic fashion and that it would fall foul of the law of contempt.

When the trial opened, and Mr Ponting was arraigned and pleaded not guilty, the judge, Mr Justice McCowan, weighed in. He expressed his uneasiness at Channel 4's Press release and its statement that actors would take the part of himself, counsel for the parties and witnesses. He thought that such a procedure would involve a substantial risk for prejudice to the administration of justice.

The judge accordingly made an order under the Contempt of Court Act 1981 "that a report *of any part of the proceedings* in the form proposed by Channel 4, in *their nightly* half-hour Court Report, be post*poned until after the jury has* given its verdict in this case or *until further order."* Neither the prosecution nor the defence demurred. When Channel 4 sought, through its counsel, to address the judge, he *declined* to hear them.

A judge's order under the 1981 Act is not susceptible to any challenge by way of judicial review or immediate appeal, so the programme in its original form was abandoned. An alternative programme, involving a presenter and three newsreaders, was devised. It appeared to be much less successful in conveying information and impressions of the trial to a television audience. It certainly failed to attract the expected number of viewers. Television critics described the alternative programme as "unwatchable," and defence counsel likened it to an "anaesthetic."

Two main questions exercised the minds of the members of the *European Commission* of Human Rights. Did Mr Justice McCowan's *order* banning the programme constitute an interference with the TV company's right to impart information, as protected by Article 10 of the Convention; and, if so, was the interference necessary in a democratic society? Did Channel 4 have an effective remedy under English law in respect of any violations of the Convention?

The Commission has announced that it has admitted the application on the latter ground. We shall have to wait for its report to see what it says about the violation of freedom of expression.

Media coverage of important trials suffers alike from restrictive laws and lack of newsprint space. A day's hearings in court last five hours, requiring about 80 *pages of typescript.* Newspapers are inevitably restricted to *the* highlights of the evidence. The potential for *distortion* and *inaccuracy* is considerable. The reader cannot get more than a flavour of the case. He certainly does not always get a full and balanced impression of what the case is about.

Radio and television coverage tends to be even more superficial. It takes the form of a reporter, with no legal qualifications, giving a breathless layman's account outside the court building at the end of the day's hearing. His report, at best, will be *the most cursory* of summaries. If the report is to camera, *the picture of the* reporter may be accompanied by a few *"quotable quotes"* displayed on rolling captions. *The listener to the radio may* at least absorb more than the viewer *distracted by other* things in the picture. These expedients *are forced* on the media by a provision in the Criminal Justice Act 1925 which bans photography or drawing *in the precincts of the* court.

Whether Channel 4 wins the day, and is allowed to try out its Court Report without the legal threat of contempt, will be known when the European Commission of Human Rights issues its report. Meanwhile there would be sense in a government review of the reporting of court cases before we are told by Strasbourg that once agan, *our law breaches* freedom of expresson.

THE ARTS

Michelangeli & Davis/Barbican Hall

David Murray

The legendary pianist Michelangeli is here to play Beethoven's "Emperor" Concerto twice, with Colin Davis and the London Symphony. The first concert, with a full house, was last Thursday.

As Michelangeli took his place at the keyboard, gaunt and apparently glum as usual, Davis moved the podium as close as possible to him, and thereafter kept his eyes permanently fixed on the soloist's hands. It was clear that it was not going to be a performance of easy give-and-take. Michelangeli's reading of the "Emperor," like any of the other few works he is prepared to play in public, was perfected a long time ago, and it is hermetically sealed against external temptations.

That was how it sounded, with Davis rather in the position of a conductor accompanying, say, a Percy Grainger piano-roll of the soloist's part of the Grieg concerto. In fact Davis was sufficiently clairvoyant to anticipate Michelangeli's intentions with fair success. The piano playing was of course breathtaking, immaculate, hyper-lucid, graded with infinite delicacy—and in its own way, wholly at the service of Beethoven. Michelangeli is not a narcissistic performer, but simply one with ferociously high, rigid standards. It would be unrealistic to expect anything like spontaneous vitality from something preserved under glass.

Released from that strange harness, the London Symphony attacked the First Symphony of Sibelius with enthusiasm. They were in excellent form (though concentration flagged slightly towards the end, and there was an intrusive low string F in the final chord on E): the Symphony requires nothing like the extreme subtlety of Michelangeli's phrasing in Beethoven, but urgent conviction and punch, which it got. True Sibelians, of whom I am not one, might have thought that Davis sacrificed a little breadth to all that energetic thrust, but it was still a well-planned, sympathetic performance.

Alberni Quartet/Purcell Room

Andrew Clements

The Park Lane Group's String Quartet Series has occupied the Purcell Room for six successive Thursdays. The Alberni Quartet brought it to a close last week, rounding off the twin themes of the season—Bartok's six quartets, and Haydn's Op. 20 set—as well as the subsidiary thread, which has brought the first London performances of the four quartets by Hans Gál.

Listening to Gál's music is a curious experience — one of hearing a musical personality frozen at the turn of the century and apparently impervious to all the shades of modernism which must have washed around it in the intervening years. Gál, at 97, is still very much alive and living in Edinburgh; his fourth quartet was written in 1971. Its terms of reference appear to be those of the young Schoenberg or Zemlinsky; the quartets of Brahms, Dvorak, perhaps Reger, spiced now and then with a twist of Straussian chromaticism.

Gál's strength lies in his ability to unwind long, seamless melodies and weave them into a naturally evolving form; the themes are not specifically memorable (though pleasant enough) nor do they have a strong rhythmic profile. The lack of angularity and bite in his music—even in the Fourth Quartet, in a movement titled Burlesque—seems its weakness. It's easy to be seduced by music with such a carefully moulded shape and refined harmonic sense, but it makes no demands whatsoever as it goes through the right motions with well-balanced elegance.

The Alberni performance was solid, secure and somewhat lacking in imagination; earlier the quartet had given a tranquilised account of Bartok's Sixth, blunting its barbs, soothing its anguish. There was also the London premiere of Nigel Osborne's *Lumière*, an inconsequential, perilously thin invention that began life as an improvisation project for children. Admirable enough aim; but whatever encouraged the composer to think the piece could stand on its own feet in the concert hall?

Ariadne/Covent Garden

Max Loppert

The Royal Opera *Ariadne auf Naxos* production is distressing in the extreme to anyone who believes that Strauss's music and Hofmannsthal's words *mean* something, together, and are not just an aural backdrop for frou-frou high jinks and camp operatic in-jokes. But musical standards in the current revival are now high, as we learned at Friday's performance, in which Gundula Janowitz took over the title role for the first of three appearances.

She proves a far nobler heroine than the show deserves; but any imbalance that this causes is in itself a minor victory for Strauss and Hofmannsthal, and therefore to be celebrated. It is a long time since Miss Janowitz recorded the role for Rudolf Kempe; on Friday it was plain that meanwhile the voice has dried somewhat, has lost some of its pure fluency and floated radiance (especially when a soprano line goes high and loud, as in both of Ariadne's monologues it does climactically).

But the command of the character, of her words and notes, is total. Ariadne is, in the Prologue, a prima-donna cameo, which Miss Janowitz etched with a splendidly disdainful flourish; and, in the Opera, a serious, complicated, and beautiful artistic conception, which she fulfilled with clear gaze and an inner conviction so intense as to press itself right through the centre of all the production's toshy bedizenings. It's some while since on this stage we heard a German soprano singing her native language with such unforced, unexaggerated intelligence and sensitivity; and there were many gentle phrases that both composer and librettist would surely have delighted in (the soft flick up to high B flat in "Ein schönes war" was one of the more notable).

Musically, the performance went off with a fine lyrical glow. Colin Davis's conducting, though once or twice straying in the direction of overly affectionate rubato in the Prologue, developed a proud urgency just where many *Ariadne* conductors fatally lose it—in the long final duet. Ensemble was tight; projection of a score properly too "small" for Covent Garden was expert; and the ability to support Edita Gruberova's sensationally robust, humorous, and well-sung Zerbinetta at every moment was extraordinarily impressive. If only *Ariadne auf Naxos* were an opera for shut eyes!

London Symphony/Festival Hall

David Murray

In the LSO concert on Saturday, the demands of telerecording were so obtrusive and stringent—even, it seemed, to the point of affecting the sound in the hall—that one wasn't surprised when Brahms' First Piano Concerto no sooner began than it went on to HOLD. Were we about to get a fast-backward? No: somebody had decided that Brahms's "Maestoso" for the first movement must imply "Largo." It may have been the conductor Myung-Whun Chung, or the soloist Barry Douglas, or perhaps it was a *folie à deux*. In any case the result was peculiar, unbelievable and agonisingly stretched out.

In the long, long Introduction (not anyway a happy example of Brahms' orchestration: the music was conceived as a symphony, and then as a two-piano sonata, before it became the Concerto), the violins laboured mightily to feign the essential attack at the impossible tempo, surely without benefit of the usual RFH electronic enhancement. The dirge-like entry of Mr Douglas strove for intensity, but it was brittle as well as slow: he has the crunchy descent and digital "ping" of the true virtuoso, but they did nothing for the dark, harried feeling of the music.

Later he approached climaxes with portentous *rallentandi*, making young Brahms prematurely grey; contrariwise, in the Adagio (which piled a glacial Pelion on an interminable Ossa) he made the elevated climax faster and skittishly expressive. In pianissimo he was almost toneless, as with two large mikes stuck rudely into the piano anybody might be. He and Chung contrived to keep just sufficiently below tempo in the Finale to kill its thrust.

Mr Chung's fascinating manual gestures look eloquent to the bystander, but they achieved only a very ragged string-fugue in that movement. The Sixth Symphony of Dvorák went much better, at orthodox tempi: brightly woven in high colours—and rather consistently loud. Chung likes to keep even the least voices audible and forward, though always cleverly balanced: the compact-disc ideal, which is not ideal for a composer like Dvorák, given to routine imitations and descents by way of filling out texture. As the Symphony proceeded one began to realise that Chung's knack for refined polychromatic sound was not matched by any special knack for phrasing. Dvorák's individual tunes, which are almost the heart of the matter, lacked spring (notably the very first subject) and anything much like sympathetic shaping. The real fireworks of the evening were outside on the Thames; I didn't discover by courtesy of whom, but they were magnificent.

Alastair Muir

Michael Pennington and Patrick O'Connell

The Henrys/Old Vic

Michael Coveney

It was almost like old times at the Old Vic on Saturday: an all-day marathon of both parts of *Henry IV* and *Henry V* punctuated by coffee and jolly meals, an occasion comparable to the RSC Shakespearian history jags of the early 1960s and mid-1970s. The new English Shakespeare Company, founded by Michaels Pennington and Bogdanov, funded by the Arts Council (£100,000 and production launch at the Theatre Royal, Plymouth) and the Allied Irish Bank, is a brave enterprise that demonstrated the need for a large-scale touring classical company to supplement and improve upon the service of the National and RSC.

It also underlines the range and depth of our acting community and confirms the heroic status of Michael Pennington in the title roles, growing from impetuous prankster in Eastcheap to the pragmatic but chillingly stern scourge of Agincourt. This is a performance to rank, in the long haul of Harry, with those of Ian Holm and Alan Howard. And Bogdanov's production, with its incessant iconographic references to a divided nation and the flaring jingoism of quarrels abroad to "waste the memory of the former days," is a bitterly immediate and contemporary pageant that remains none the less generously committed to the Shakespearian design.

This trilogy, one of the imperishable glories of our dramatic heritage, shows Britain torn apart and on the move, its monarchy adjusting to the modern world by consorting with its louche *denizens*, the Church and disinherited nobility rising in rebellion, the country justices lamenting the old days and hoping for preferment, the invocation of an ancient law to appropriate foreign territory.

The low life in Rochester and Eastcheap is one of leather-clad punks, old boys in mackintoshes, loud-mouthed bullies and tired hostesses. The Boar's Head is presided over by a Mistress Quickly whom June Watson plays as an East End Cynthia Payne, offering a good time but expecting decent behaviour and payment when due.

Hal and Poins, the men in buckram, are dressed in battle fatigues. Pistol's crew, on the other hand, are yob patriots whose flaunting of the Union Jack prefigures the National Front-ism of today's football hooligans. This philosophical schism between Hal and his off-duty cronies is one of the strongest elements in the production, defining the difference between a serious foreign policy and drunken tourism. In *Henry V*, the departure from Southampton is like a nightmare of travelling supporters, with "Gotcha" banners and other obscenities waved in a sound sea of "'Ere we go" and "Jerusalem." This frightening storm subsides on a Manet-inspired composition of implacable French courtiers in white, the King of France contemptuously reporting: "Thus comes the English with full power upon us."

There is no attempt, as in the last RSC Adrian Noble/Kenneth Branagh version of *Henry V*, to undercut the jingoism. As Gary Taylor pointed out in his superb 1982 Oxford edition, this final play of the trilogy can be claimed by pacifists as well as by war-mongerers; the Bogdanov reading is savagely unsympathetic towards Hal's campaign, just as Olivier's war-time film was a call to arms. This is the source of the play's richness. Pennington puts on the robe of majesty with a terrible fury, cutting off Falstaff with an icy sneer after the coronation in *Part 2* but reverting to his tavern curiosity in that eve-of-battle disguised visitation of the soldiers which results in that wonderful definition of public conscience: every man's duty's to the king but every man's soul is his own.

You can only achieve this full picture of Hal by seeing the trilogy. The Falstaff episode, in the end, goes on too long for this Hal. John Woodvine's imperious squire, a beautifully articulated reading with refined nasal drawl of Michael Gambon and the tripping lightness of most fat men, is no part of this Hal's long-term plans, as Pennington makes clear in the play-acting scene, Woodvine occupying the King's role with the relish of a medieval mummer, a tasselled cushion for a crown.

John Price's double of Hotspur and Pistol shows the contrasting dangers of taking yourself seriously — "no world to play with mammets and to tilt with lips" on the one hand, brawling oblivion and empty gesture (news of the succession is carried to Gloucestershire by Pistol sporting a "Hal's Angels" leather jacket) on the other. When Hal takes himself seriously, he does so on a scale that causes havoc in France and a seismically unpleasant national unity back home.

The company is strong, with notable doubles from Patrick O'Connell as a testy Bolingbroke and satiric Canterbury, Clyde Pollitt as a David Cecil-ish Shallow and a demure French king, Andrew Jarvis as a ferocious Douglas and splenetic Dauphin. The black void setting, invaded by trucks, gantries and sliding panels, is by Chris Dyer, the inventive costumes by Stephanie Howard, the lighting by Chris Ellis. Plans are afoot, I understand, for the rest of the histories. *The Henrys* are at the Old Vic until May 2, complete cycle given each Saturday, and thence to Toronto.

Architecture/Colin Amery

Furniture and classicism

Since the 18th century architects have always designed furniture. It is not easy to be certain of their contribution to furniture design before that, but it is hard to imagine Inigo Jones or John Webb being happy to have their architecture compromised by the addition of off-the-peg furniture. From Adam to Lutyens and Mackintosh the tradition of architect-designed furniture has continued. It is an international trend and there is scarcely a bank or an airport in the world where you do not rest your limbs on a bench or chair modelled upon those designed by Mies van der Rohe for the Barcelona Pavilion.

Many of the pieces designed by Modern Movement architects have become classics. This critic's lengthy frame is often to be found stretched upon Marcel Breuer's classic long chair made in England in the 1930s by Isokon and many an architect enlivens his sparse white room with a pair of swivelling black leather armchairs designed by the American architect Charles Eames. In the extensive Le Corbusier exhibition at the London Hayward Gallery his furniture is prominently shown.

It is a pleasure to welcome a new enterprise dedicated to the design and manufacture of furniture by living British architects that is to be launched at Colnaghi's Galleries (14 New Bond Street, London, W1) from March 25 until April 11. The Alma Furniture Company has asked six leading architects and three designers each to create a particular piece of fine furniture. These will be produced in limited numbers and, like the prototypes, will be made by some of London's finest furniture makers. There is certainly a market for well-designed and well-made furniture that is original.

This unusual collection includes work by Terry Farrell, Jeremy Dixon, Piers Gough, John Outram, Troughton/McAslan and Robert Adam — all of them architects. Three designers are represented in the work of Dinah Casson, Ben Kelly and the fashion designer Scott Crolla.

The most immediately acceptable pices are the Pembroke table by Robert Adam, which is conventional in design but not materials, using burr myrtle, maplewood and bronze castings; and the dining table and chairs by Jeremy Dixon—easy versions of the Biedermeier tradition.

There is something anthoropomorphic about Scott Crolla's "Cathedral chair" — it sits at the corner like a one-eared elephant and is described as suitable for tranverse sitting. This is something the trousered of both sexes indulge in, tossing a spare leg over the arm of a conventional chair.

The stronges piece in the collection, which hast he kind of imperfect vigour that was associated with the high Victorian furniture of E. B. Lamb or even William Burges, is by the architect John Outram, his chest of drawers named "Confucius" has a *strong and colourful* presence.

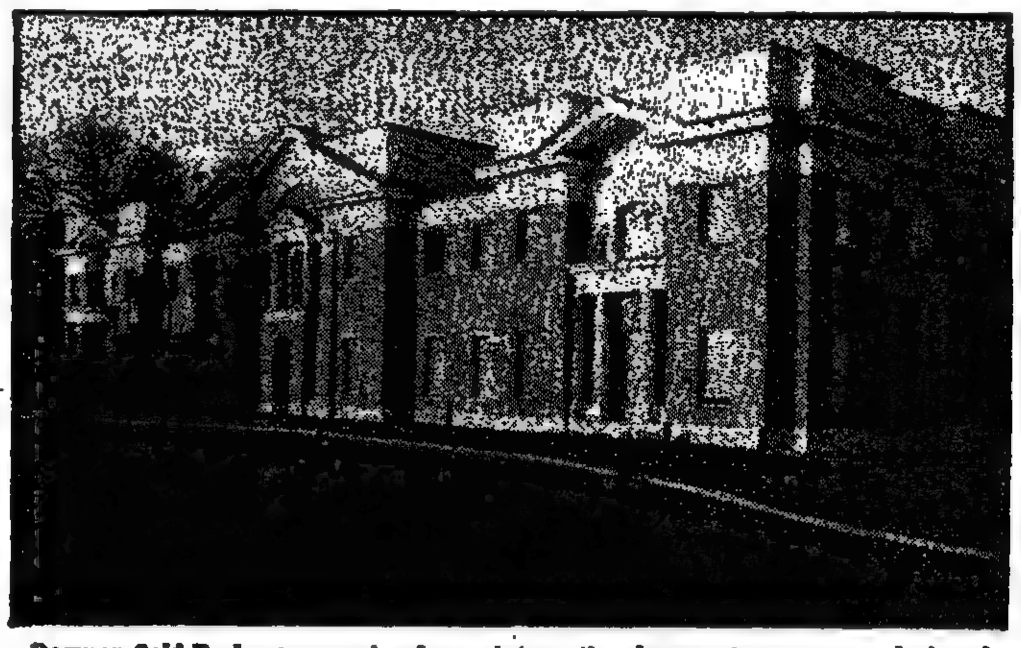
At the Building Centre in London until April 15 is an exhibition called *Real Architecture*, of the work of a group calling themselves—"The New Generation of Architects." Do not expect radical new solutions or avant-garde designs. This is real architecture in the same sense as we now have real ale. It is traditional design in the classical manner by a group of architects in their 30s and early 40s. Rigorously excluded are part-time classicists like Piers Gough or Terry Farrell—they are in no way true to the faith.

Accordingto the organisers of this show, only modernists are always seeking innovation — true classical architecture copies its sources as accurately as possible. The work shown at the Building Centre does not entirely bear out that sentiment and indeed the most interesting new examples all develop the classical language in new ways.

Robert Adam (felicitously named) has added a wing to a country house at Dogmersfield in Hampshire which is occupied by Amdahl Computers. The executive architects, Gebler, Tooth and Partridge carried out the conversion of the house but it was necessary to have a skilled classical architect to secure the planning consent for the addition to a significant country house. Adam's design is very bold and handsome, both Baroque and adventurous.

Quinlan Terry's work at Richmond-upon-Thames and Leon Krier's outline proposals for Spitalfields show that classical solutions can now also be commercial ones. Robert Adam's library at Bordon in Hampshire, in its simple elegance, shows how good materials and a sense of proportion could easily be applied to the ubiquitous supermarket or industrial building.

There is a deadness about much of it in this show—is it lack of knowledge of the real thing? Or is it a failure of nerve? The average Edwardian post office in the classical manner is livelier than much of the work on display here but we have to remember that what we see represents a real struggle to be trained in schools where classicism is still despised and scarcely taught. It is an uphill battle just to make the style acceptable again let alone develop it. I am certain most people would like the houses in this exhibition. I know that if I was building a library I would want one by Roderick Gradidge, just like the one he has designed for Easton Neston, and I would happily furnish it with a desk like the one on show by Nick Allen of Inventive Design. In the search for harmony and excellence all these architects have an important place—and they should be encouraged to chip away at our inheritance of recent mediocrity.



Dogmersfield Park—a new wing for an international computer company, designed by Robert Adam

Obituary/Harold Rosenthal

Max Loppert

Harold Rosenthal, editor (1953-86) of *Opera* magazine, died last Thursday at the age of 69. In 1950, when he was editorial assistant to the Earl of Harewood, it was decided to transform Harewood's *Ballet and Opera* into a purely operatic publication. On taking over the editorship a few years later Rosenthal became responsible for making *Opera* the most important and influential regular operatic journal in the world.

Under his guidance the coverage of events and issues in *Opera* developed a genuinely international breadth, though as a critic Rosenthal himself never lost his fiercely partisan attitude toward British performers and companies — indeed, he can be said to have played a crucial role in spreading the reputation of rising British standards in singing, conducting, and production across the wider postwar world. Every opera critic of any substance has appeared in the pages of *Opera* at some time or other. His encouragement of young writers was both judicious and generous.

Rosenthal was also renowned as an archivist — it was while serving this function at the Royal Opera House that he produced *Two Centuries of Opera at Covent Garden* (1958), a key work—and as a performance historian and collector of memorabilia. By the time of his retirement, last year, he had been awarded both the OBE and the *Cavaliere della Repubblica d'Italia*.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

March 20–26

Music

ITALY

Rome, Auditorium in via Della Conciliazione: Penderecki conducting Shostakovich's symphony no. 14 and his own te deum (Mon, Tue). (654 1044).

Rome, Teatro Olimpico (Piazza Gentile da Fabriano): Alexandre Lonquich (piano) and Pietro Borgonovo (Oboe). Schumann (Wed). (393 304).

Rome, Oratorio del Gonfalone (Via del Gonfalone 32A): Fabio Biondi (violin), Maurizio Naddeo (cello) and Rinaldo Alessandrini (piano). Trios by Haydn and Mozart (Thur). (68 75 952).

Rome, Teatro Ghione (Via delle Fornaci 37): Mezzo-soprano Jean McPhail accompanied by Constance Channon-Douglass. Mozart, Wagner, Liszt and Donizetti (Tue); Giovanna Manci (soprano). Donizetti, Mercadante, Tosti and Bellini accompanied by Christopher Axworthy (Wed); piano recital by Gyorgy Sandor. Beethoven, Schumann, Bartok, Debussy and Liszt. (697 2294). (Thur).

LONDON

English Chamber Orchestra directed by Josef Suk, viola, with Ernst Kovacic, violin. Mozart and Dvořák. Barbican Hall (Tue). (638 8891).

Academy of St. Martin-in-the-Fields conducted by Sir Neville Marriner with Heinrich Schiff, cello. Vaughan-Williams, Schumann, Fauré and Beethoven. Royal Festival Hall (Tue). (928 3191).

Gervase de Peyer, clarinet with the Amadeus Quartet and Gwenneth Pryor, piano, Gyorgy Pauk, violin and Peter Frankl, piano. Brahms and Bartok. Queen Elizabeth Hall (Tue). (928 3191).

BBC Symphony Orchestra conducted by Sir John Pritchard with Ralph Kirschbaum, cello. Walton, David Matthews and Strauss. Royal Festival Hall (Wed).

Royal Philharmonic Orchestra conducted by James Judd with Howard Shelley, piano. Rossini, Rachmaninov and Beethoven. Barbican Hall (Wed).

London Symphony Orchestra and Chorus conducted by Richard Hickox. Stravinsky and Beethoven. Barbican Hall (Thur).

Royal Philharmonic Orchestra conducted by Sir Yehudi Menuhin with Arve Tellefsen, violin and Hakan Hardenberger, trumpet. Grieg, Mozart, Haydn and Mendelssohn. Royal Festival Hall (Thur).

English Chamber Orchestra conducted by Carl Davis And Andrzej Panufnik with Robert Thompson, bassoon. Bartok, Panufnik, David Matthews and Tippett. Queen Elizabeth Hall (Thur).

PARIS

Eva Podles, mezzo-soprano. Jerzy Marchwinski, piano: Haydn, Chopin, Britten, Tchaikovsky (Mon). Théâtre de l'Athénée (4742 6727).

Udo Reinemann, baritone, Noel Lee, piano: Brahms (Tue). Salle Gaveau (4563 2030).

Ensemble Orchestral de Paris conducted by Wilfried Boettcher, Rene Duchable, piano: Stravinsky, Weber, Schumann, Schubert (Tue). Salle Pleyel (4563 8873).

Orchestre Français d'Oratorio conducted by Jean-Pierre Lore, Roland Delassus choir conducted by H. Dasse: Saint-Saens, Bizet (Tue). Saint-Roch Church (4261 9326).

Orchestre de Paris - chamber music: Baliff, Britten, Francaix (Tue 6.15pm). Salle Pleyel (4563 0740).

Orchestre de Paris conducted by Pierre Boulez: Messiaen, Stravinsky (Wed, Thur). Salle Pleyel (4563 0740).

Mario Reinhard, piano, Isabelle Decleve, piano: J.C. Bach, Mozart, Brahms (Thur). Salle Gaveau (4563 2030).

NETHERLANDS

Amsterdam, Concertgebouw: Piano recital by Frédéric Meinders: Schubert, Chopin, Schumann, Schumann/Liszt, Liszt (Mon). Ken-Ichiro Kobayashi conducting the Netherlands Philharmonic, with Emmy Verhey, violin, and Janos Starker, cello: Rossini, Brahms, Dvořák (Tue); The Concertgebouw Orchestra conducted by Hartmut Haenchen, with Andrei Gavrilov, piano: Honegger, Ravel, Schumann (Wed, Thur). Recital Hall: Estella Olevsky, piano: Soler, Scarlatti, Mozart, Chopin, Ravel, Ginastera (Mon). A multi-media evening centred around a rare integral performance of Bartok's Mikrokosmos by Gary Goldschneider, piano, with Corine Bender, Petra van Oord and Laura Stavinoha, pianos (Wed); Pieter Wispelwey, cello, and Frank Mol, piano: Beethoven, Britten, Carter, Schumann (Thur). (71 83 45).

Rotterdam, Doelen. Heinz Friesen conducting the Netherlands Philharmonic chamber ensemble, with Kees Hülsmann, violin: Mozart, Hindemith, Grieg (Mon). Easter concert with massed choirs and soloists conducted by Pieter Stolk (Wed). Recital Hall: The Caecilia Consort with Marieke Blankestijn, piano: Vivaldi, Mozart, Bach, Bartok (Tue). Piano recital by Piet Veenstra: Haydn, Schubert, Chopin (Thur). (414 29 11).

Utrecht, Vredenburg. Ken-Ichiro Kobayashi conducting the Netherlands Philharmonic, with Emmy Verhey, violin, and Janos Starker, cello; Rossini, Brahms, Dvořák (Wed). The Hague Philharmonic under Hans Vonk, with Vladimir Mendelssohn, viola, vocalists and choir: Vellones, Séverac, Bax, Delius, Vaughan Williams, Roussel (Thur). Recital Hall: The Melos Quartet: Cherubini, Janacek, Brahms (Tue). Stéphane Varègues with chanson settings of poems by Baudelaire of Verlaine (Wed). (21 45 44).

Scheveningen, Circus Theatre. International cello concours, preliminary rounds from Mon (55 88 00).

Groningen, Oosterpoort. The Leonid Hambro Piano Quartet: Bernstein, Mozart, Fauré, Dukas, Anderson, Gershwin, Shostakovich (Tue). (13 10 44). Maastricht, Schouwburg. The Amsterdam Bach Soloists: Bach (Tue). (21 33 00).

TOKYO

Jean-Yves Thibaudet, piano. All-Chopin programme. Tokyo Bunka Kaikan Recital Hall (Mon). (545 8348, 8348).

Yehudi Menuhin and Camerata Lysy-Gstaad ensemble. Vivaldi, Mozart, Martin, Bach, Paganini, Puccini. Suntory Hall (Tue). (573 3588; 237 9990).

Daniel Barenboim, piano Complete Cycle of Beethoven Piano Sonatas. Op. 27-1, 10-3, 90, 53 (Mon); Op. 28, 2-3, 78, 109 (Wed). Suntory Hall (723 2356).

The Swedish Radio Symphony Orchestra, Mahler, Sibelius. Sponsored by Toshiba. Suntory Hall (Thur). (403 8011, 920 6050).

Swan Lake/Covent Garden

Clement Crisp

Two falling-down drunks are two too many in *Swan Lake*. A boozy tutor in Act 1 is authentically Petipan, but exaggerated in the Royal Ballet's new staging; a tipsy cadet with a hip-flask at the start of Act 2 is a textural gloss of no dramatic value. These are examples of what remains to be edited in this otherwise sensitive and in many instances powerful production by Anthony Dowell. Both lushes are symptoms of an unnecessary desire to justify the stage action, when (as the Russians show in their versions) it is entirely possible to let the tale tell itself on almost abstract terms, with dramatic embroidery and natty little patches of characterisation kept to an absolute minimum.

Ballet is not a literal art—albeit *Dorian Gray* has just tried to make it a literary one — and the soul of *Swan Lake* lies in the fantasy world of Siegfried's obsession and Odette's tragedy. It is one of the merits of this new presentation that, in Act 3, Yolanda Sonnabend's design and Dowell's direction create a world suggestive of mania and impersonation, a masked ball which is the proper location for the malevolent role-playing of Odile and von Rothbart.

By contrast, the lakeside scenes with their elegiac mood serve to free Siegfried from the constraints of the court and liberate Odette from enchantment. Both characters become their true selves there, and in the conflict between a falsely real world and a true but fantastic locale, the staging and design are eminently sensitive. This tension was clear in Bryony Brind's account of Odette on Saturday night, and in the nervously taut view of Siegfried given by Mark Silver as her partner.

Miss Brind has an elegant line and a quiet dignity for Odette, as well as a physical manner which can encompass the aristocracy of the writing. She phrased the dances like mournful melodies, and brought a noble resignation to the betrayed swan of the final scene. Her Odile was less coherent: the bravura of Odile's steps did not seem to serve a malign characterisation but was a substitute for it, and the dance looked fragmented rather than exultant. Mark Silver offered a clear-cut Siegfried, emotions quick to flare as the great passion was born at the lake-side, the dance in the ballroom cleanly stated. But as so often with the Royal Ballet's classical heroes, there was something slightly finicky in the detail of his reading: trusting the old ballet, trusting Chaikovsky, are signs of artistic maturity in dancers and producers.

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

The security of Europe

SIR GEOFFREY HOWE, the British Foreign Secretary, and Mr Jacques Delors, President of the Commission of the European Community, have in the past week both given powerful support to the idea of closer European co-operation on defence and security. The idea is not new: the Brussels Treaty of 1948 antedated the foundation of the European Coal and Steel Community, the formation of Western European Union preceded that of the European Economic Community; but it has been given new life in recent years, to the point where it is becoming the conventional wisdom.

Sir Geoffrey has proposed that the headquarters of Western European Union be moved from London to Brussels, to be closer to Nato [and the Community, of course]; Mr Delors proposed that the 12 members of the Community should hold a special summit to discuss security and East-West relations. But the specifics of the recommendations are much less important than their general theme that Europe needs to pay greater collective attention to, and take more collective responsibility for, its security.

Economic role

The intervention of Mr Delors has caused some surprise, because defence and security lie outside the legal competences of the Commission. Yet the founders of the Comunity believed they were engaged in an essentially political process, and tried to create a European Defence Community before they set up the European Economic Community.

For historical reasons the Community was confined to a purely economic role; but the Single European Act negotiated in 1985 explicitly recognises the need for co-operation between the 12 on security matters. Mr Delors may be offering against strict protocol, but not against common sense.

For the past 15 years the member states have consistently tried to co-ordinate their foreign policies on issues of the moment; but until recently, they have hung back from any significant attempt to co-ordinate defence and security policies. On the one hand, they were afraid of upsetting the US; on the other, France's self-exclusion from Nato made it unlikely that European co-ordination was feasible.

These two inhibitions have significantly subsided. European governments wish to strengthen the alliance with the US, but President Reagan's tendency to unilateral improvisation has on so many occasions caused alarm in Europe, that it no longer seems entirely prudent to rely on Washington's judgment. As Sir Geoffrey put it in a remarkably outspoken sentence: "We need to be alert to trends in American thinking which might diminish our security—perhaps not today or tomorrow, but possibly in the longer term."

Secondly, France under President Mitterrand has steadily moved away from Gaullist notions of national sanctuary towards an explicitly European posture. Re-integration into Nato remains a sticking point, but the recent Franco-British decision to discuss cooperation on nuclear questions suggests that most of the old taboos are gradually being swept away.

A third factor which is providing a positive incitement to closer European cooperation on defence and security is the sense of movement being projected by the Gorbachev regime in Moscow. This is creating new uncertainties over the future of East-West relations.

Mr Gorbachev's claim to be pursuing an exclusively pacific foreign policy may be both rational and plausible; but it is also possible that he is pursuing an accommodation with the US, so as to weaken and ultimately split the Atlantic Alliance, and thus be able to threaten Western Europe at minimum risk to the Soviet Union.

No consultation

At the Reykjavik summit the superpowers ostensibly came close to an agreement on a nuclear-free world; this might have improved the security of the US, but it might seriously have jeopardised that of the Western Europeans, who were not even consulted. Similarly, the prospective elimination of all medium-range missiles from Europe may be important politically, but it could accentuate the Soviet Union's advantages in shorter-range missiles and conventional forces.

Until Mr Gorbachev came along, the rigidity of the East-West stand-off at least gave a certain type of stability to the political geography. Now that the log-jam seems to be breaking, and with it the old sense of predictability, it is vital that like-minded European governments take more collective responsibility for their security.

Risk control in financial markets

THE Euromarkets have become a crucible for financial innovation in recent years. But one of its segments, the floating rate note (FRN) market, has thrown up a salutary lesson on innovation's costs.

For some weeks the FRN market has been in a state of crisis. Prices have fallen sharply, and there have even been times when dealers have had to shut the market down. The resulting losses and shaken confidence have made it one of the Euromarkets' more traumatic experiences.

The cause of the collapse lay in the once fast-growing market for perpetual floating rate notes issued by banks. These specialised instruments were developed specifically to enable banks to raise capital in the debt markets which would qualify as quasi-equity under the bank supervisors' rules on primary capital. Several billion dollars' worth were sold, mainly in the first half of last year, at prices which reflected the perception of them as high quality debt instruments.

Since then, however, that perception has changed. Investors realised that in reality, perpetual FRNs fell into a grey area between debt and equity: they have debt characteristics, but on the other hand they never need be repaid, and interest payments can be suspended if the issuing bank gets into difficulty. This altered perception triggered the sharp price adjustment which led to the crisis. It also had a knock-on effect in other parts of the FRN and bank debt market which has caused a fresh set of problems.

Unfamiliar risks

The principal victims of the crisis are the Japanese banks who were the largest purchasers of perpetual FRNs. By some estimates they are now nursing losses of $1bn, though these are unrealistic and may be accommodated in some way by the Japanese regulatory authorities. However, the fact that the damage is confined in this way does not limit the broader message.

The issue raised by the crisis is how the capital markets should deal with the wave of innovation that characterises international finance, and the unfamiliar risks it brings. Hardly a week goes by without the invention of some new instrument. And even as the perpetual FRN market withers, creative minds are at work seeking something to replace it.

Mr Hans-Juerg Rudloff, chairman of Credit Suisse First Boston, a leading Euromarket firm, called last week for a stronger regulatory effort at the international level by supervisors of the finance industry. This was somewhat surprising since Euromarket participants have always considered themselves to be "big boys" capable of looking after their interests. And Mr Rudloff's own firm would be the first to resist formalised controls over the Euromarkets—and with justice since their efficiency and inventiveness have on the whole brought great benefits to borrower and investor alike.

Sensible approach

Nevertheless, there is clearly a need for greater discipline. At the moment, the regulatory response to innovation and the market's own assessment of risk can lag well behind each new development with costly results.

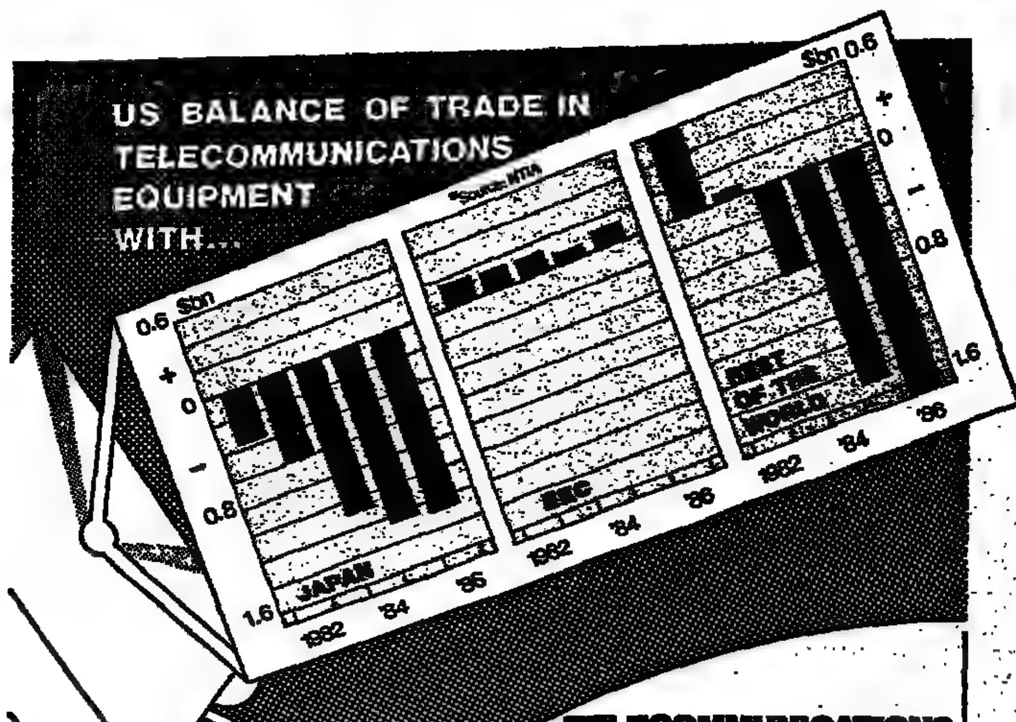
The approach adopted by financial regulators in countries like the UK, where the Euromarkets are based, is to assign a risk "weighting" to particular types of instruments, and then to require institutions trading in these instruments to back them with a given amount of capital. The higher the weighting, the more capital is required. The process of consultation on a scale of weightings is underway and some weightings have been assigned, to off balance sheet liabilities, for example.

This appears to be a sensible approach since it will be flexible and will result in riskier instruments becoming more costly to hold. As a spectrum of risk is developed it will also become easier to slot new instruments in quite quickly, enabling regulation to keep better pace with innovation. It is not a question of inhibiting innovation, but assigning it its correct price.

WORLD TELECOMMUNICATIONS

Line open to the free market

By Terry Dodsworth



TELECOMMUNICATIONS TRADE: leading countries

	Imports ($m)	Exports ($m)
USA	3,218	1,718
Japan	123	1,839
UK	398	300
West Germany	161	757
France	92	472
Italy	191	167
Sweden	150	959
Canada	205	597
Taiwan	107	280
Hong Kong	258	378

* National Telecommunications and Information Administration. Brane Ralovic

Under the twin pressures of new technology and deregulation, equipment manufacturers are sweeping aside national market barriers which seemed insurmountable only a few years ago

IN THE not so distant past, it would have seemed absurd to raise the issue of trade battles in the world telecommunications industry.

National telephone systems were universally regarded as natural local monopolies, best left, like the electricity and water supplies, to home-based utilities and equipment manufacturers. International communications were a model of trading harmony, governed by central agreements and universally accepted standerds.

Suddenly, however, after 100 years of stability, the mould is cracking. Under the twin pressures of new technology and deregulation, equipment manufacturers are sweeping aside national market barriers which seemed insurmountable only a few years ago.

Tentative changes are also being made in the structure of the state-controlled telephone service companies, an area which traditionally governments guarded as jealously as their defence industries. With these developments, accusations of protectionism have started to fly across the Atlantic and Pacific, as the US joins battle with Europe and Japan in yet another trading area.

"We invented much of this industry and we have good products," says one bewildered US trade official. "Yet now we feel as though we are under seige."

These new tensions have shown up in a number of incidents over the last few months. They include:

● The bruising international conflict over the future of Compagnie Generale des Constructions Telephoniques (CGCT), the French telephone exchange manufacturing group, which is being pursued by a clutch of overseas manufacturers anxious to take over its 16 per cent share of the French market. Both the West German and American governments have thrown in their heavy diplomatic artillery in an attempt to sway the decision towards their national champions, respectively Siemens and American Telephone and Telegraph (AT&T).

● The US threat to block sales of Siemens public telephone exchanges to the regulated network in America. This move, in retaliation against Siemen's bid for CGCT in France, reflects the US conviction that European governments are trying to carve up the local markt to benefit local manufacturers

● A furious international row exploded last week in Japan over foreign participation in a new overseas telephone service. Although presented as an opportunity for foreign companies to move into a liberalising Japanese telecommunications market, the three overseas companies which have made a bid—Cable and Wireless of the UK, and Pacific Telesis and Merrill Lynch of the US—last week saw their roles in the consortium bidding to operate the service scaled down to 3 per cent by the Japanese authorities.

Mrs Margaret Thatcher, the British Prime Minister, had previously written to her Japanese counterpart, Mr Yasuhiro Nakasone on behalf of Cable and Wireless, which had been aiming for a 20 per cent stake. Last week the US Senate went even further, voting unanimously for retaliation by President Reagan.

Underlying the sharp deterioration in the trading climate are extraordinary changes in the flow of exports of telecommunications equipment. In the space of only five years, the US has gone from a healthy trading surplus of $580m in this sector to a deficit of almost $1.6bn (£1bn), according to figures recently produced by the National Telecommunications and Information Administration in Washington. With Japan, the US deficit has more than doubled over the past four years.

Europe has also experienced a steady slippage in its position in the world. Figures produced by the EEC show that the region's overall positive trade balance with the rest of the world was down for the third year in succession in 1985, falling to 1.25bn Ecus from 1.68bn Ecus in 1983.

These figures tell a familiar story in the world's trading relationships—the US under a withering attack from Japan, the Japanese sailing ahead almost untouched by imports and the Europeans struggling along in the rear, steadily losing ground as markets become more competitive. Many of the reasons behind the imbalance have been well-rehearsed in other sectors, with the US suffering heavily from the overvaluation of the dollar in the early 1980s, and the Far East winning hands down on price competitiveness, particularly in run-of-the-mill products like telephone handsets.

...However, there is one essential difference between telecommunications and other industries: issue of deregulation. The dramatic change in the pattern of trade in telephone equipment has roughly coincided with the beginnings of the move towards liberalisation in the supply of telecommunications equipment. Trade has developed, in other words, because the possibility of selling telephone products overseas has greatly increased.

Inevitably, the imbalances in the trade flows are being blamed on deregulation as well. It is notable that, apart from the US, the leading industrial country to suffer a reverse in telecommunications trade is the UK, the other keen deregulator, which run up a deficit of almost $100m in 1985

The Americans, in particular, argue that they are being heavily penalised because some other countries, who are part of the Generall Agreement on Tariffs and Trade (GATT) organisation, are failing to open up their telecommunications markets to fair competition from overseas. For the free-trading zealots who came to power in Washington in the Reagan landslide six years ago, closed markets are a capital crime. Indeed, it was one of the high priests of this movement, Mr Mark Fowler, until recently head of the Federal Communications Commission, who first began to apply pressure on Siemens over the CGCT case.

"I want to remind Europeans that we have one of the most open markets in the world," said Mr Fowler, announcing moves for a possible blockade on Siemens. "This (the Siemens move for CGCT) is an egregious example of efforts by certain European countries to close their markets to American companies."

Europe has not taken Mr Fowler's charges lying down. Indeed, Mr Michel Carpentier, head of the European Commission's Directorate General for Telecommunications, recently turned the American argument around, claiming that European industry finds it difficult to enter the American telephone market. In digital public switch systems, an area of European strength, he said, specification adjustments demanded by the US amounted to 20 per cent to 30 per cent of additional development expenditure, or between $200m and $300m.

"It is a myth that US deregulation has led to an invasion of the US market by European telecommunications products with no equivalent opening of the major parts of the European market to the US," he said. US exports to Europe were rising, while the EEC share of American imports was falling.

In 1984, European manufacturers accounted for only 3.6 per cent of US telecommunication sales, against Taiwan's 11.8 per cent and Hong Kong's 7.3 per cent, while Japan towered over all other importers with 51 per cent.

In this welter of claims and counter-claims, one fact stands out: the exceptional strength of the Japanese. Their companies are not particularly effective in the area of public telephone exchange equipment, the flagship products of the industry which tend to attract the most interest. But they have achieved rapid progress in the US and Europe by concentrating on the market for private switching systems — telephones with multiple lines or small business exchanges — and radio transmission equipment. They have defended their home market with equal dexterity: imports last year amounted to only $123m, less than one-third of UK imports.

The combination of Japan's burgeoning surplus on telecommunications equipment and the CGCT row in Europe has pushed Washington towards moves that could result in legislation to stem the flow of imports. After years of opposition to action, the Reagan Administration has prepared a report which indicts both Japan and Europe for restrictive practices, while ramming home the point about easy US market access.

"There is land available to foreign companies here, they can hire American engineers and they can set up distribution with no difficulty. Yet we find we are restricted overseas," says Mr William Sullivan, senior communications policy analyst at the White House's policy unit.

This new White House approach may give increased impact to a proposed telecommunications trade bill, aimed at reciprocity in market access, that has been drafted under the sponsorship of Senator John Danforth, a Republican from Missouri with a lot of clout on trade matters. Under Senator Danforth's proposals, the US and its European trading partners would be required to undertake two years of negotiations with a view to securing equal market access in different categories of goods. If this were not achieved, the US would take steps to restrict its market to European exporters.

Japan would be on a much faster timetable than the other trading partners, because of an open market agreement in telecommunications signed six years ago. Senator Danforth believes that Japan has dragged its feet on implementing this accord and he would give it only six months to show genuine reciprocity.

It is impossible to predict the eventual impact of such legislation, although it might well generate a far-reaching crisis in the industry. Deregulation is already afoot in most industrialised nations, and countries have begun to talk to each other more seriously in recent months about protectionist issues. But the pace of deregulation varies enormously, and legislated changes may not mean substantial changes in practice.

In Europe, there is an added complication. Who speaks for the EEC as a whole? While the Commission has managed to grasp a role for itself on harmonising standards, individual countries continue to guard their telephone industries jealously, aware of their role as high technology locomotives. The variation of approach in Europe is illustrated by the fact that deregulation in the UK is not far behind what has been achieved in the US, while France and Germany are only likely to come up with their own, less ambitious plans, later this year.

One thing is certain. As far as the US is concerned, the decision over the future of CGCT, due to be made by the end of April, is crucial. If the AT&T-Philips bid is turned down, it will be seen in Washington as a sign of Europe's unwillingness to adapt to the open trading approach to telecommunications adopted in the US.

A favourable decision, on the other hand, would be likely to dampen Congressional fervour for legislation, and convince Washington that free trade still has a future in Europe. "Nothing will occur on this side," as one Congressional observer puts it, "if we all do right by Adam Smith."

Men and Matters

The great VW caper

An east European bank, reels of erased computer tape, resignations, sackings and recriminations in a one-company town. All it needs is a whiff of the Mafia or a body dangling from one of Frankfurt's bridges across the Main. The VW foreign currency story has all the makings of a cheap thriller.

Except, that is, for the price. The DM 480m alleged fraud at Volkswagen has already cost the company dear.

Some journalists may already be planning their bestsellers. What they are using for facts is another matter. For the VW scandal has highlighted the odd ways in which West German companies account for their business, and deal with the press.

VW's shareholders must be wondering whether to laugh or cry. What sort of company can take such a large hit and then blandly state that its profits for 1986 will still match the previous year's record? VW has no lack of reserves to tuck into, but its shareholders have been remarkably docile in not asking the vital questions.

"The secret is knowing when to press the insider trading button."

Look at the character list in this thriller. Upholding the power of the press is the unlikely figure of Gerhard Czerwensky, elderly editor of the Platow Brief, the Frankfurt financial newsletter which first reported that all was not well with VW's foreign currency dealings.

Czerwensky, no Bernstein or Woodward, is a slightly shabby gentleman, but his idiosyncratic manner and off-beam questioning can add a touch of humour to most West German corporate press conferences.

Up in VW headquarters at Wolfsburg, a town of 130,000 people, the character list is almost as strong. Dallas it isn't, but the boardroom battle that erupted last year when Carl Hahn, VW's chief executive tried to push through his plan to appoint a new board-level financial comptroller to improve supervision of worldwide operations, has given the tale a touch of irony.

Appointing a new man would probably have come too late to help VW's present plight, though it would have added to the dramatis personae. But those chronicling VW's upheavals are not short of character material. The company now seems to be trying to outdo US corporations in management machismo.

The latest technique is firing staff who have already resigned. Top of the list is Burkhard "Bobby" Junger, 39, VW's former foreign exchange boss who is now loudly crying "Foul." He thinks he is being made the fall guy in a drama where responsibility lies elsewhere.

Finally, by all accounts, everyone, including the state prosecutor, would like to see Joachim Schmidt, who heads a small Frankfurt foreign exchange broking firm. He is reported to have left for the Maldives, for, in his own words, "sun and fun." He could be in for a hard landing when he gets back.

Boone's way

Until T. Boone Pickens, the corporate raider, appeared on the scene, Houghton Miflin, the Boston publishing house, had only twice paid over $1m to publish a book the—Churchill memoirs and a book by J. R. Tolkein.

Last week, Pickens joined the elite with his 300-page autobiography, Boone—as he tells it, the story of a man who turned a $2,500 investment into America's largest independent oil company in 30 years and "along the way discovered that something is terribly wrong with corporate America."

And even though it has not been particularly well reviewed, Boone has jumped into 14th place in the New York Times bestseller list in its first week.

Pickens has been involved in several of the biggest and most controversial takeover battles of recent years. But Boone sheds little light on what he terms his battles with "the good old boys" of Gulf Oil, Phillips Petroleum and Unocal. But it does include plenty of gossip about their "ballroom-size egos."

He has a few choice words to say about British oilmen. Lord Kearton, former head of BNOC, is described as "a gaunt gangly old codger" and "an inside guy at the skunk works." Although Pickens is a great admirer of Winston Churchill, he does not think much of the UK economy and says that "after watching the Brits in action" he can understand the decline of England.

Detective work

The detailed—and lively—book published today about UK nominees' accounts was not, as one might have imagined, written by a company director or a legal expert, but by two TV producers, Richard Belfield and Christopher Hird.

The £75 opus is the result of two years of detective work and plain hard slog in their spare time to uncover as much as they could about the people who really own shares in nominee accounts, and they would not have been able to do the job without a personal computer to handle the mass of information they uncovered.

According to Hird, many of the company secretaries they wrote to for information about their registers refused to help on ground of confidentiality. But nudged by reminders that they had no choice under the Companies Act, more than 200 of the UK's largest quoted companies cooperated in the end.

Their researches did not unveil any massive international subterfuges. "The vast majority are innocent," says Hird. But they uncovered, in passing, the nominee accounts of such luminaries as Cecil Parkinson, Sir Jack Lyons and Robert Maxwell.

The Bank of England nominees get a mention: "Principally used by foreign governments and heads of state including the British royal family."

Belfield and Hird make programmes for Channel Four, mostly on business subjects

Observer

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Americans and Mr Gorbachev

Truth, justice and the Russian way

By Stewart Fleming in Washington

FOR 40 years American attitudes towards the Soviet Union have been characterised by a reflexive hostility.

During the past six of those years, with Washington's political life dominated by Mr Ronald Reagan, an ideological conservative bent on rebuilding the US military machine, that hostility has hardened into an intransigence which sometimes seems to condemn the world to an inexorable escalation of superpower tension.

Yet today, with Mr Mikhail Gorbachev, the Soviet leader, embarking on his third year in office, there are tentative signs that Washington is once again displaying that vein of political unpredictability which not infrequently catches its allies—as well as its enemies—off balance.

In the months since the failed Reykjavik summit, a new debate over US-Soviet relations has broken out. Echoes can be heard of West German Foreign Minister Mr Hans Dietrich Genscher's recent suggestion that the time has come for the West to examine whether the political initiatives being launched by Mr Gorbachev call for a reappraisal of attitudes to Moscow.

"Behind closed doors, study groups are springing up all over Washington to debate whether the United States has an interest in seeing Gorbachev succeed," says Mr William Maynes, editor of Foreign Policy magazine, adding that America's gut anti-communism means it is politically much more dangerous in the US to endorse, as Mr Genscher did, a position in favour of helping the Soviet leader.

Undaunted by such concerns, the New York Times, long a critic of the Reagan Administration's approach to Moscow, has run an editorial pointing out that the changes Mr Gorbachev has launched—more openness, more freedom, more popular participation in decisions—are, of course, designed to make the Soviet Union stronger.

"Can the United States, indulging in idealism, afford to back him at the risk of strengthening its adversary?" the bastion of liberal thought asks. Its answer is an unequivocal "yes . . . Given what this country stands for, these are risks the United States should be prepared to take."

But the question of how to respond to Mr Gorbachev's Russia is not only being asked on the left of the American political spectrum. Conservative opinion leaders are also joining in. This indicates the importance they attach to a debate which on the eve of the political campaigning season, is fraught with political risks for those on the right. They might appear to be questioning the anti-communist orthodoxy of their political base.

The most striking public contributions have come from Mrs Jeane Kirkpatrick, formerly the Reagan Administration's chief delegate to the United Nations and a fully committed member of the ideological right on foreign policy issues, and from Dr Henry Kissinger, Secretary of State in the Nixon Administration. Both were members of a group of former top officials who met Mr Gorbachev last month.

Interviewed on the Macneil/Lehrer News Hour after the Moscow trip, Mrs Kirkpatrick made no secret of the fact that she was reassessing the Soviet leader's significance. She even seemed to hint that events in Moscow might benefit the US.

Asked how the US ought to react to Mr Gorbachev's domestic policy moves, she responded: "We need to keep our eyes open and our minds open. Fundamentally we need to pursue our own policies, protect our own interests."

"So," the interviewer said, "basically no change from what you thought before you went over there?"

"No, that's not true," Mrs Kirkpatrick retorted, "because what we saw was a strong and impressive leader in the Soviet Union, who is very interested in bringing about some changes there and who has a willingness to deal with us and does not regard Reykjavik as the end of the road."

Ironically, it is Dr Kissinger—a man the right has attacked as an architect of detente, and a Republican who is not seen as an ideological conservative—who has been taking the more jaundiced view.

In the wake of the Moscow visit, Dr Kissinger has accused the Reagan Administration of "pursuing the traditional agenda of the past two decades with only minor variations." He suggests that, once again, the American people are falling into the trap of believing that a new Soviet leader may herald "a new and better era."

He warns that "domestic reform has not yet cracked the monolithic front presented by Soviet interlocutors." His call is for the US to adopt a position in the arms control talks which embraces "a commitment to proceed with SDI (strategic defence initiative) testing and deployment," a position which Moscow has warned would lead it to abandon the negotiations.

"American concessions should, therefore, be geared to Soviet foreign policy conduct and not to its domestic economic programme," Dr Kissinger writes in a Newsweek article.

A re-examination is also taking place within the Administration.

Initially the feeling was that Mr Gorbachev was just another party hack in a Western suit, according to a senior Reagan Administration expert on US/Soviet relations. But he continues: "I think the period from last summer until now has shaken that view pretty fundamentally."

This official sees Mr Gorbachev as "acting in ways which are more radical in the Soviet domestic political context and which are opening up the prospects for long-term change."

But although some reassessment of Moscow is underway, "what I do not think has changed is the general sense that he is going to fail to achieve the kind of sustained, dramatic, qualitative and quantitative (economic) growth that he has been talking about," because the nature of Soviet society is not susceptible to piecemeal reform.

This sort of assessment does not suggest that any radical departures in the Reagan Administration's approach to Moscow can be anticipated.

Defence Secretary Mr Caspar Weinberger has been trying to secure a decision favouring the early deployment of SDI's first phase and the reinterpretation of the 1972 ABM Treaty, which would give Washington greater flexibility in pursuing SDI — so-called Star Wars — research. This also suggests that conservatives see little reason for Washington to adopt a more accommodative stance vis a vis Moscow.

It would thus be premature to conclude that the decision of an embattled president to move rapidly towards a limited arms control agreement on intermediate nuclear weapons in Europe and a 1987 summit is indicative of increased momentum for a broader arms control accord.

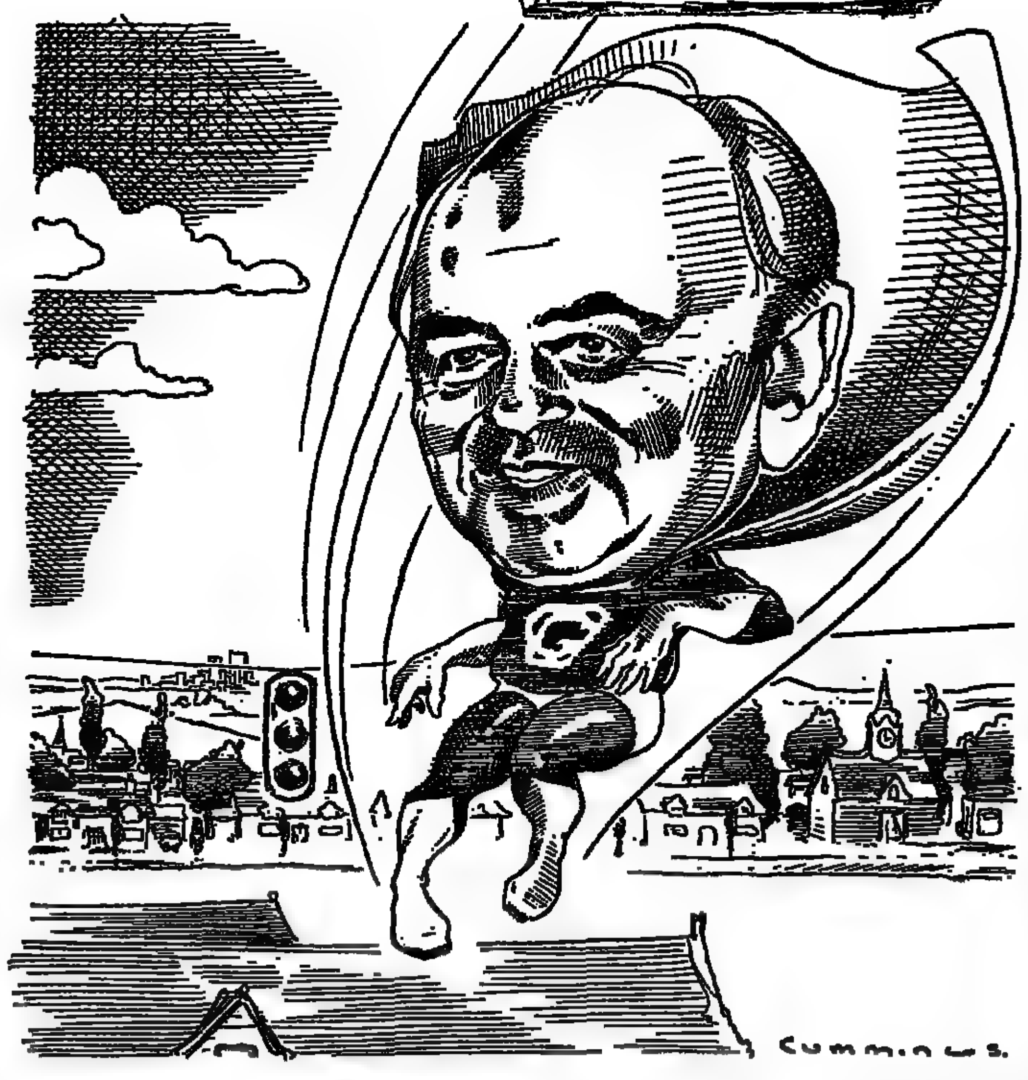
Some experts outside the Administration nevertheless suspect that a broader arms control agreement cannot be ruled out. Mr John Hardt, associate director for research co-ordination at the Congressional Research Service, maintains that there is a general symmetry between the pressures on Mr Gorbachev to seek cuts in weapons—to release skilled manpower for economic development—and growing fiscal pressures on President Reagan now that Congress seems bent on curbing his defence build-up.

Changing perceptions of Mr Gorbachev in Washington are likely to have little impact on US/Soviet arms control talks during what remains of the Reagan Administration. But, in the longer term, the debate about Mr Gorbachev's new thinking will probably affect not only US relations with Moscow and its allies, but also the domestic political scene. Here, led by Senator Sam Nunn, it is the Democratic Party which is dominating the defence and arms control debate.

The fact that Washington's foreign policy experts are belatedly, beginning to think more deeply about the Soviet leader is encouraging. It suggests that the debate over US Soviet relations may finally escape the narrow ideological confines into which it had been driven for so long by President Reagan.

It is, however, early days. The influence of conservatives in the Reagan Administration over the past six years, their commitment to SDI and the tough standards they have established for arms control agreements on such issues as verification, will outlive this President. The talks on Euro missiles could break down. A new US-Soviet crisis could erupt unexpectedly. Mr Gorbachev's policies or status could change.

Barring such setbacks, Mr Reagan and his more moderate advisors, such as the new White House Chief of Staff Mr Howard Baker, seem determined to press ahead for a summit this year. Combined with the growing intellectual and political influence of the Democrats on Capitol Hill and the broader reassessment of Mr Gorbachev now under way, one thing seems clear: the focus in Washington has shifted from whether to deal with the Soviets to how to deal with them.



Lombard

The old regime and the new

By Samuel Brittan

AN INTELLECTUAL confrontation took place last week of greater interest than the Budget itself.

The Financial Times published a letter a week ago from four knights and a peer who had been Chief Economic Advisers to Governments between 1947 and 1979. Their complaint was that the increase of two million in unemployment since 1979 was due to "errors of Government policy," particularly tight financial policies in the recession of 1979-81 from which the British economy has still to recover.

The Chancellor Nigel Lawson, in the one piece of purple prose in his speech—drafted in fact before he had seen the letter—remarked that Britain was embarking on its seventh year of steady growth despite a sharp reduction in the public sector borrowing percentage, even after allowing for privatisation. He concluded that the view that only an expansionary fiscal policy would produce real economic growth had been exploded. "One critically important argument has been concluded finally and decisively."

One is tempted to say that the Chancellor's argument is about growth, and the real charge relates to jobs.

But the advisers have rather walked into it. For they state very firmly that "slow growth since 1979" was the reason for high unemployment. Yet the sharp break in growth rates occurred, not in 1979, but after the oil shock of 1973. If anything average growth rates were a little higher under the Thatcher Government in 1979-86 than in the period 1973-79.

The economic advisers could, at the cost of revealing their own lack of real influence, reply that the abandonment of their type of demand management began when Labour was still in office. But this was because it was leading to explosive inflation rather than sustainable growth: and it is pointless to make a bogey of the IMF or of the pernicious influence of "monetarist" writers on Prime Minister Callaghan and Chancellor Healey.

Yet, there is a charge to which the Thatcher government is open. The sharp recovery in productivity over which it presided largely went to waste in higher unemployment rather than a return to pre-1973 growth rates, which really would have absorbed the unemployed.

If the present government wished to abandon the demand stimulation approach to high employment it had some obligation to move along the labour market route much earlier, more vigorously, and with greater sophistication than it has done.

The old economic establishment did give one warning again and again in the early 1970s. This was that any attempt to counter inflation by financial stringency alone, without pay policies, would lead to soaring unemployment. When they warned of one-and-a-half million unemployed they were accused of scaremongering; and if they hinted at two million, they were shouted down. Yet their worst unspoken fears have been realised.

It is no answer to say that the rise in unemployment could not have been avoided by tolerating inflation; nor by pointing to initial overmanning. Events on the jobs front developed step-by-step as the Old Guard had warned, only faster and worse.

Not that the five advisers are now much help. They simply write that "alternative policies exist." Some of them have advocated higher public spending instead of tax reduction. This is a big departure from their own practice when the only way they could persuade governments to stimulate demand, on the rare occasions when they had a chance, was by the tax reduction route. Like their successors, they had to accept government spending as determined by the political process.

The present and former guiding spirits of the Treasury are closer than they realise. For they are linked in a common absorbtion in macro-economic policies when the roots of high unemployment lie in malfunctioning markets, particularly but not only in those for labour and housing. The old regime denies this. The new one accepts it intellectually, but it does not have the clout to drive genuine micro-economic reform through the government machine, and the vested interests behind it.

The two sides are closer than they know.

Letters to the Editor

Profit-related pay

From Mr S. Estrin and Mr S. Wadhwani.

Sir, — We have previously argued that, even if profit-related pay (PRP) might be desirable, the case for public subsidy to firms which introduce PRP remains, at best, unproven. One might therefore, at first sight, welcome the Chancellor's proposals in the Budget which appear to stimulate PRP at the trivial cost of £50m.

This figure, however, is, almost certainly, a serious underestimate of the true cost. To illustrate this, consider the following examples. According to the Inland Revenue, for a married man on average earnings, for whom PRP is 10 per cent of pay, the relief is about £8 a week. On this basis, the Treasury's prediction of cost is based on the assumption that only about one-third of a million workers join the scheme (out of about 16m workers in the private sector); a take-up of about 2 per cent. According to the Department of Employment's figures, however, some 6 per cent of companies already have cash-based profit-sharing schemes which do not, at the moment, get tax relief. In addition, 15 per cent of companies have share - based schemes under the 1978 or 1980 Acts. One might expect most of the cash-based schemes and a significant proportion of the share-based schemes to convert to PRP, since the tax advantages are greater. Since the companies which have existing schemes are large, the proportion of employees would probably exceed the 21 per cent of companies.

If we take a conservative estimate that 15 per cent of private sector employees gain relief from this scheme, the total cost would rise to £375m. Were 25 per cent of employees to take up the scheme, the cost would rise to over £600m, and if, in addition, PRP is 20 per cent of pay, the cost would then be about £1.25bn. Even these figures could be underestimates if the Chancellor's proposals encouraged a significant number of cosmetic profit-sharing schems to exploit their tax advantages.

Saul Estrin,
Sushil Wadhwani,
London School of Economics,
Houghton Street WC2.

Exchange control

From Mr M. Harvey

Sir,—One matter which the Chancellor mentioned in his Budget speech and which has received very little comment is his intention to repeal the Exchange Control Act of 1947. When the administrative machinery for handling exchange control was dismantled in 1979 there was a concerted cry from many corners for the Act itself to be repealed. Sir Geoffrey Howe, who was Chancellor at the time, demurred saying that the main reason for keeping the legislation on the statute book was to have the ability to counteract a flow of hot money into the UK. Presumably the current Chancellor feels that such an eventuality is now a remote possibility.

While in political terms I see this as an important gesture, on the grounds that it is much more difficult to legislate than to resuscitate an administrative inconvenience, I wonder whether it will lead to even more pressure being put on the Government to repeal Section 482 of the Income and Corporation Taxes Act 1970 which, as every corporate treasurer will know, requires a rather dreary exercise to be undertaken each time a UK company wishes to create a subsidiary in an overseas jurisdiction.

Alternatively, by repealing the Exchange Control Act the Chancellor may well have given additional strength to the Revenue's argument that Section 482 should indeed remain on the statute book.

M. S. Harvey.
Highfields House,
Highfields,
Ashtead, Surrey.

Engineering training

From Mr W. Woods

Sir,—I see (March 13) that once again the Engineering Industry Training Board has put off making a decision. We were all led to believe that during the current month it would make a decision between one of the following options: bringing in new more rigorous exemption rules designed to meet current and future training needs; abandoning the exemption system and introducing a levy/grant system; or abandoning the exemption system and funding the Board entirely through the non-returnable levy at some level up to 0.2 per cent of payroll.

It does appear from your article that it could be the first option. If this is to be the case, the training of skilled craftsmen and technicians must be a priority.

I have already said that when a company has received a certificate of exemption it has changed its mind about training craftsmen and technicians. Unfortunately the EITB has not gone back and informed the said company that it no longer meets the criteria and will, therefore, lose its exemption status.

Your article states that a final decision will be made in June. The putting off of such a decision is endangering our nation's future as there is still a lack of skilled training being carried out. The three months delay will put back the training of skills a further year.

The enlightened employer is paying towards the training of his workforce, but I am afraid there are far too many (75 per cent) who are not. I would not like to see the demise of the Board but its indecision would seem to indicate to me that it is heading that way.

W. E. G. Woods,
(Group Training Director),
Aylesbury Industrial Group Training Centre.
Gatehouse Close,
Aylesbury, Bucks.

CBI and its membership

From Mr W. Mills

Sir,—Your leader of March 17 raises several important matters. The crucial question we have to answer is "Does CBI really represent the whole of industry"?

The total membership of CBI is only a very small proportion of the number of active businesses throughout the UK. For this reason those who are members have to pay a fairly substantial subscription commensurate with their size. In frequent instances, especially when profit margins are coming under pressure, directors seriously consider discontinuing CBI membership.

Their criterion is not so much "Can we afford to continue as members"? but "Would we really lose any advantage if our membership was discontinued in the interests of economy"? CBI needs to think out a method of getting almost every business in the UK to take out membership. This would enable the fee structure to be revised in such a way that membership would cost much less to individual companies out he one hand. On the other hand the total subscription sum would provide larger funds to support CBI activities.

One could argue that many firms are indirectly members of CBI through their trade or industrial associations. In fact is that such "secondhand" membership is just not beneficial to CBI either from the financial or representation standpoint.

A new scale of charges should be devised to suit a much greater membership than at present. Then Chambers of Commerce, trade and industrial associations and other similar bodies should be used merely as vehicles on which to haul in a much wider direct membership of small companies. Through such a membership strategy I believe we should have an organisation truly as representative of industry as a good trade union is substantially effective in support of its worker members.

Incidentally, a drastically larger membership would reinforce the Government's support to smaller firms as envisaged by new measures declared in the Chancellor's Budget. It will be interesting to see how John Banham tackles this problem.

W. R. Mills.
63, Stalker Lees Road,
Sheffield.

The principle of surcharging

From Mr R. Ledingham.

Sir, — While having no sympathy whatsoever for the politics of the disqualified Liverpool City Councillors, surely their resulting bankruptcy deserves more of a response than Mrs Thatcher's "Those democratically elected had to learn to take responsibility for their action."

It is not unreasonable to say that those elected are responsible for their actions, but the electorate's sanctions (except in the case of fraud) should surely be limited to non re-election coupled with disqualification for those who refuse to attempt to operate within rules that existed at the time of their election. The additional sanction of personal bankruptcy is quite unnecessary and will undoubtedly result in images of misery which will grant undeserved martyrdom to people who were doing the bidding of their electorate (however misguided the Law Lords might feel that electorate to be).

If the principle of surcharging were to be applied to MPs, would they be as quick to accept responsibility for their actions. If "failure to set an oil depletion policy" carried the same penalty as failure to set a "legal" rate, the bailiffs would be descending on a house in Dulwich as well as a few in Liverpool. Both actions would be equally wrong in principle, but everyone would be bearing an equal responsibility for their inaction.

If Westminster really believes that the surcharging of local councillors is such a good idea, why can we not have it as a sanction to use against MPs? The alternative should be to take heed of the Audit commission's call for a change in the system of surcharging by abolishing it.

R. A. Ledingham,
Rose View, Main Street,
Hethe, Oxon.

FINANCIAL TIMES

Monday March 23 1987

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Roderick Oram on Wall Street

Witching hour spell is broken

LEADERS of the US financial futures industry sunned themselves in Florida last Friday afternoon while their troops fought out the last of the old-style triple witching hours in wintry Chicago's futures pits and on rainy New York's stock exchange floors.

It was a question of market timing rather than dereliction of duty. While the Futures Industry Association (FIA) had to work on a five to seven-year lead time to secure a prime week in a choice conference hotel, its members had run through a complete new product cycle in half the time, taking stock index futures from invention through excess and regulation to a semblance of normality.

Many of the conferees regretted being out of the action which in the past had brought high drama, turbulent trading and whiplash price changes on the one Friday each quarter when futures and options on stock indices and options on the underlying stocks expire simultaneously at the close of trading.

"I missed it. It's in my chromosomes," Mr Lew Horowitz, president of the New York Futures Exchange, said by telephone from Florida. "If I had been there, I might have been able to help solve any problems." In the event, Friday was benign compared with memorable triple witching hours over the past few years when spectacular volumes and price changes have upset the public and Wall Street's Washington watchdogs.

About 52m shares, a fifth of the day's total, changed hands in the last minute of trading as index players closed out their positions upon the triple expiration of futures and options. The $2bn of trading pushed up the Dow Jones industrial average eight points, almost a quarter of its gain over the full day.

By comparison, December's triple witch saw double the volume and value of shares and a violent swing in the Dow from a small loss on the day to a 16-point gain. Previous expirations have been even more severe.

Several factors made Friday relatively smooth. Players had rolled over in recent days many of their index futures positions from March contracts to those expiring in June.

In the past they have been able to profit right up to the expiration by using computer-driven program trades to exploit any price differentials between the index futures and the underlying shares. But fast-growing use of and familiarity with index contracts have reduced the price discrepancies and thus the rewards for hanging on to the end.

Moreover, the Securities and Exchange Commission, Wall Street's regulatory agency, had toughened its guidelines on arbitrage-related market-on-close share trading orders. Disclosure of these orders is credited with taking most of the nasty surprises out of triple witching hours.

At December's expiration, however, some brokers, notably Salomon Brothers, followed more the letter of the guidelines than the spirit, contributing to the volatility and angering the SEC.

In the past, "there's been a great tendency to secrecy with orders being put in and pulled out at short notice. Now the market's pretty fairly priced before the expiration," said a Morgan Stanley official who had been in the thick of Friday's fray.

He sounded spent by the tense hours leading up to trading $1.1bn of shares for his firm in the final moment of the session.

"Nobody pulled any fast ones," another trader said, which allowed players to base their trading decisions on relatively complete knowledge of market-on-close orders rather than rumours.

However, just as Wall Street was getting the hang of banishing the bewitching influences of triple expiration days, the game is being changed. Friday was the last occasion when the three types of contract will expire together at the close of trading. June's expiration Friday will see some expire at the opening and others at the close.

"Now that we've learned the lessons, can we transfer them to the opening?" the Morgan Stanley trader asked.

In theory, any dislocation caused by the expiration will be worked out through the full trading session following immediately. In practice, it might take players a few expiration days to adjust to the new arrangement.

This was surely the subject of fruitful discussions in Florida as the last of the old-style triple witching hours struck at home.

For anyone feeling nostalgic about the disappearance of the old spectre, the Philadelphia Stock Exchange, a leader in futures, laid on some high-tech apparitions at Friday night's dinner dance. It hired a New Yorker called Jason to put on "a dazzling laser display of holographic images."

Anthony Robinson on the campaign trail with a National Party defector

Worrall's bid to break the mould

THE RETIRED woman pensioner from Rhodesia stood up after Dr Denis Worrall concluded his first electoral address in his home town of Gordon's Bay, 30 miles from Cape Town. In a quavering voice she asked how whites were going to be protected in future from the overwhelming number of "savages who take pleasure from necklacing."

The necklace is a form of execution of political opponents used in the townships by placing a flaming tyre around their necks.

The polished former diplomat, whose attempt "to break the mould" of white politics is based on the premise that white South Africans are prepared for more radical change than their Government, thanked the pensioner for the honesty of her question.

He politely told her that she was exaggerating, that "we are part of Africa" and that whites could not expect to dominate for ever.

He said it was now time to regain the initiative and send a message of hope, to all South Africans by voting for the three independent candidates who are presenting the National Party Government with its biggest challenge for decades.

The main message from Dr Worrall to the 21,000 white voters of the idyllic Helderberg constituency of mountain-ringed sandy beaches and vineyards centred on the old colonial town of Somerset West in the Cape, is that all remaining apartheid legislation, like the Group Areas Act and Population Registration Act, should be abolished.

He is also calling for the state of emergency, under which at least 5,000 black activists are still detained and the townships "pacified", to be lifted, as well as an end to restrictions on the media. At this stage, says Dr Worrall, the Chief Justice should be empowered to receive constitutional proposals for a new South Africa from all sources which would form the basis for subsequent negotiations between South Africans of all races.

The aim would be to hammer out a new constitution which would safeguard individual liberties through a bill of rights while guaranteeing what Dr Worrall calls "community rights based on religion, language and culture." These would replace the racially defined "group rights" which form the bedrock of National Party policy.

However, Dr Worrall who, before he became a diplomat, worked closely with his current opponent Mr Chris Heunis, the Minister for Constitutional Development, in drawing up proposals which culminated in the present tri-cameral constitution, is less radical than he seems in the fine print.

He told his anxious questioners that racially segregated residential areas and facilities "will not be abolished just like that. There must be a timetable and vested interests must be protected."

What he has in mind is a form of "local option" where, for example, lower-income whites who feel most threatened by post-apartheid changes to their neighbourhoods could still vote to keep their areas white.

This local option is believed to be a key element in the President's council report on group area reform shelved by the Government until after the election.

It seems unlikely that blacks, including coloured people and Indians, would accept a formula which allowed greater mobility only for their privileged upper-income members.

However, they are not being consulted in this election.

Dr Worrall's vision of the brave new post-apartheid South Africa does not extend to acceptance of "one-man, one-vote in a unitary state," to which he stated clearly: "I am opposed."

Dr Worrall recognises the ANC as "a factor which has to be reckoned with not only abroad but also inside the townships of South Africa."

However, he drew a distinction between "those who believe in violence," who must be excluded from negotiations, and the non-violent nationalists. Mr Nelson Mandela would have to be released, but only after the process of negotiation had built up sufficient impetus to create the right atmosphere, he added.

His message to the voters of Helderberg – and by extension to the remainder of the country – is that by voting for or supporting the three independents they can have a major impact on the whole political system. He says this could lead to a change of direction and leadership within the "fat-cat National Party, tired and lacking direction after 40 years in power."

For Mr Heunis, who has suddenly found himself in the eye of an unexpected political cyclone, his opponent is not Dr Worrall the white knight of reform but Dr Worrall the unprincipled carpet-bagger.

Mr Heunis, who is not only fighting for his seat but also for his future as heir-apparent to President P. W. Botha, has the advantage of a well-oiled political machine and his reputation as a first-rate constituency MP. He also has the support of a state-controlled radio and TV network whose breathtaking pro-government bias is now, however, being cited by the opposition as a classic example of the National Party's abuse of power.

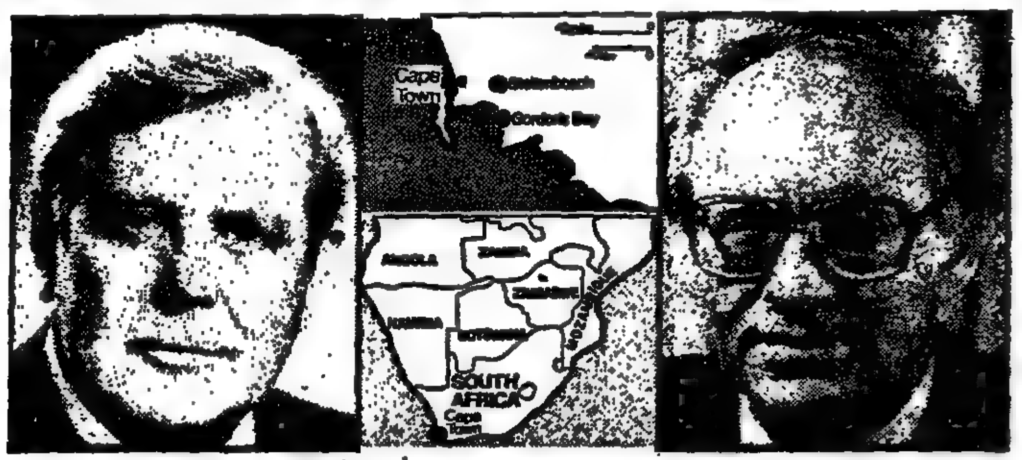
As a senior minister, and provincial leader of the National Party in the Cape, Mr Heunis has a heavy programme of 22 meetings across the country. He already looks tired.

At this first electoral meeting in support of a neighbouring MP the strain showed when he attacked the Cape Times newspaper for waging a personal vendetta against him. He then proceeded to attack Dr Worrall who earlier let his Gordon's Bay audience into the open secret that Mr Heunis and the Foreign Minister, Mr Pik Botha, could not stand each other.

Despite this, Mr Botha, by far the most popular minister with the grass roots, was enlisted to speak in support of Mr Heunis at Helderberg, a clear sign of panic in the ranks, according to Dr Worrall.

A strong tide is flowing against the National Party here in "the fairest Cape," where, in nearby Stellenbosch the recent declaration by 20 leading academics against the Government underlined frustration with its failure to push through reform.

Tutu urges ceasefire, Page 3



Former colleagues now face each other as rivals for a key South African constituency: Chris Heunis, left, is Minister for Constitutional Development while Dr Denis Worrall, right, is former South African ambassador to London now standing as an independent.

Thatcher to hold arms talks in Paris, Bonn

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MRS MARGARET THATCHER, the British Prime Minister, today flies to France and West Germany for talks with President François Mitterrand and Chancellor Helmut Kohl ahead of her five-day visit to the Soviet Union starting on Saturday.

Today's talks, which are at the suggestion of President Mitterrand to discuss arms control ahead of her Moscow meetings with Mr Mikhail Gorbachev, mark the start of an intensive 10 days of international diplomacy by both Mrs Thatcher and Mr Neil Kinnock, leader of the British Labour Party parliamentary opposition.

Mrs Thatcher said in a weekend speech to activists of her Conservative Party that recent Soviet moves towards negotiations on intermediate nuclear forces showed that "firmness pays." Peace, she said, means "an end to killing in Cambodia, and end to the slaughter in Afghanistan. It means honouring the obligations which the Soviet Union freely accepted in the Helsinki Final Act in 1975 to allow free movement of people and ideas and other basic human rights."

Both Mrs Thatcher's and Mr Kinnock's tours come as Britain appears to be moving into a general election campaign, the timing for which, however, was made more uncertain at the weekend by new evidence of the advance of Britain's third major political grouping, the Social Democratic Party/Liberal Alliance.

The Conservatives were shown by a series of public opinion polls to be well ahead of Labour, but complications arose because one survey put the Alliance in second place. Mrs Thatcher told senior colleagues during the past few days that, while the local election day of May 7 had been ruled out for the general election, she still had an open mind on dates between June and the early autumn.

Ministers are worried by the Alliance advance since this puts a number of previously safe Conservative parliamentary seats at risk. They are also concerned that support could drift from Conservatives in these areas if Labour no longer appeared to be a credible national challenger for power.

Mr Kinnock, who will be in Washington and New York on a three-day visit starting on Wednesday, plans to explain to President Ronald Reagan the background to his party's non-nuclear defence policy, including his announcement last week that a Labour government would be prepared to allow US cruise missiles to remain in Britain while there is a prospect of successful negotiations for the removal of such intermediate range weapons from Europe.

Labour this morning publishes a charter for east-west relations entitled Europe – New Detente which argues for building on the opportunities created at the Reykjavik summit.

Among the detailed proposals are not only a strengthening of arms control discussions but also increased trade, sporting, cultural and educational contacts between Britain and Eastern Europe.

Labour also advocates steps to improve human rights in Eastern Europe and the establishment of a contact group of countries from both sides, as well as from neutral states, to give early warning of problems.

IADB warning on investment

BY ALEXANDER NICOLL IN MIAMI

ECONOMIC GROWTH in Latin America cannot be sustained unless there is new investment in production capacity, the Inter-American Development Bank (IADB) warns today.

In the bank's annual report, published at its annual meeting in Miami, it says the region's gross domestic product growth accelerated slightly last year to 4 per cent from 3.5 per cent in 1985 but that this was due mainly to higher internal demand based on existing capacity.

"After five years of economic difficulties in Latin America, the failure of investments to lead the way to future economic expansion remains a central concern."

The bank adds: "In most of the countries of the region, growth will be difficult to sustain unless productive capacity, including its supportive infrastructure, is modernised and expanded."

Investment has been hampered by heavy transfer of resources out of the region. This totalled $32.3bn in 1985 and remained high in 1986 even though the region's interest payments declined, the bank says.

A $5bn saving due to lower interest rates was offset by further falls in export prices.

The bank also draws attention to the growing "social debt" built up by governments over the past five years. "The austerity programmes of the past several years have hobbled the expansion of public social services," it says.

Spending on health, education, nutrition and housing has declined at a time when real wages have been falling and unemployment rising.

If spending on social services is not rapidly increased, it says, "governments will be obliged increasingly to select the social groups on whom to concentrate whatever increases in services become possible in the next few years – or even to restructure the existing patterns of social expenditures."

The bank's own lending showed a marginal fall last year from $3.06bn in 1985 to $3.04bn

IADB funds delayed, Page 3

Delors seeks stronger EMS

Continued from Page 1

states to fund new policies such as co-operative research.

"It is a total package, and it is indispensable to put into place between now and the end of 1988," he said – a tacit admission that no decision on future financing was likely this year.

He had tried, and so far failed, to persuade EEC leaders that there was a direct link between the package and the prosperity of their own economies. They had to answer the problem of flagging private investment, which would only respond if the private sector believed in the 1992 target for scrapping national barriers.

World Weather

		°C	°F
Ajaccio	C	13	55
Algiers	F	14	57
Amsterdam	F	7	45
Athens	C	18	64
Bahrain	C	29	84
Bangkok	S	35	95
Barcelona	–	—	—
Beirut	C	13	55
Belfast	–	—	—
Belgrade	C	15	59
Berlin	–	—	—
Biarritz	–	—	—
Bombay	S	34	93
Bordeaux	–	—	—
Brussels	F	5	41
Budapest	F	9	48
B. Aires	C	23	73
Cairo	S	24	75
Cape Town	–	—	—
Caracas	C	32	90
Casablanca	F	17	63
Chicago	C	3	37
Cologne	–	—	—
Copenhagen	C	4	39
Corfu	R	12	54
Dallas	F	15	59
Dublin	–	—	—
Dubrovnik	R	8	46
Edinburgh	–	—	—
Faro	S	18	64
Florence	–	—	—
Frankfurt	F	5	41
Funchal	C	17	63
Geneva	F	7	45
Gibraltar	–	—	—
Glasgow	–	—	—
Guernsey	–	—	—
Helsinki	F	-1	30
H. Kong	C	26	79
Innsbruck	–	—	—
Inverness	–	—	—
I. o. Man	–	—	—
Istanbul	S	14	57
Jakarta	S	30	86
Jersey	–	—	—
Jo'burg	C	26	79
Lima	–	—	—
Lisbon	–	—	—
London	C	9	48
Los Angeles	S	7	45
Luxembourg	–	—	—
Madrid	F	13	55
Majorca	–	—	—
Malaga	–	—	—
Malta	–	—	—
Manchester	–	—	—
Manila	S	36	97
Melbourne	R	15	59
Mexico City	–	—	—
Miami	S	18	64
Milan	F	9	48
Montreal	F	5	41
Moscow	C	-3	27
Munich	–	—	—
Nairobi	–	—	—
Naples	–	—	—
Nassau	C	27	81
New Delhi	S	32	90
New York	C	4	39
Nice	–	—	—
Nicosia	–	—	—
Oporto	S	14	57
Oslo	–	—	—
Paris	F	9	48
Peking	–	—	—
Prague	F	4	39
Reykjavik	F	-2	28
Rhodes	S	18	64
Rio de J'o	C	32	90
Rome	S	14	57
Salzburg	F	7	45
San Francisco	F	8	46
Seoul	R	13	55
Singapore	R	32	90
Stockholm	F	3	38
Strasbourg	C	8	46
Sydney	C	24	75
Taipei	S	27	81
Tangier	S	18	64
Tel Aviv	S	23	73
Tenerife	R	18	64
Tokyo	R	14	57
Toronto	F	2	36
Tunis	F	14	57
Valencia	F	17	63
Venice	–	—	—
Vienna	F	7	45
Warsaw	S	7	45
Washington	C	9	48
Zurich	F	4	39

Readings at mid-day yesterday:
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

China's FT not pink

Continued from Page 1

500,000. The 50 journalists on the staff and a mix of former bankers, university graduates and long-time scribes, and the newspaper occupies two floors in a building vacated by the Bureau of Foreign Exchange Control, an arm of the People's Bank.

It apparently took very little arm-twisting to convince Deng Xiaoping to provide the calligraphy. According to Li: "He is very concerned about our country's news-work. He is very enthusiastic about the paper. The country needs a paper like the Financial Times for our modernisation drive."

The trial issue touched on insider-trading problems in the US, gave an explanation of the unusual way China calculates its foreign-exchange reserves, and favourably profiled a branch of the People's Bank. Li thought the issue had too much theory and not enough hard news.

Wu Xiaoling, the theory editor, was previously a financial researcher at the People's Bank. She thinks Keynes and his fellow travellers have "some relevance" to China and agrees with a few of Milton Friedman's ideas.

By the way, the Chinese-style Financial Times is not printed on pink paper and has no formal connection at all with this Financial Times. An associate of Li said the typeface could be changed though Li was unmoved and thought it fitting that a "brother" FT journalist should be the first to interview him.

THE LEX COLUMN

The best value in the City

To Mr D. J. L. Moore, Public Expenditure Group, HM Treasury, Treasury Chambers, Parliament Street, London SW1P 3AG.

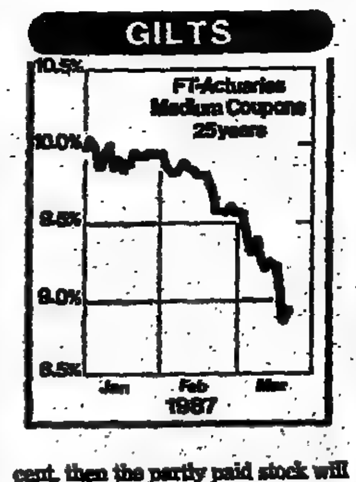
Dear Mr Moore,

I saw on my Topic screen your letter inviting applicants for the job of advising Her Majesty's Government on the sale of its 578.5m shares in BP. I should like to apply. You ask about my relevant experience. None whatsoever. But what do you think of the performance of those who have advised you so far? You ask for details of daily and hourly rates. The merchant banks will quote you about £1,000 per man day. But if you pay peanuts, you get monkeys. I propose to charge only a performance-related fee. I shall explain later.

I know Merrill Lynch has offered to buy the deal at market price. If it comes to that, I have a few Japanese friends who will sell the lot for you on the Tokyo market at 100 times earnings. But I realise that this might have unwelcome political repercussions in an election year. And whatever you get for the shares, the amount is not offsetable against the PSBR, because BP is a private-sector company. Besides, HMG has always made it clear that such sales are not money-making exercises but rather an attempt to broaden the base of small shareholders in the UK.

But how do you encourage Joe Public (alias Joe Stag) to go for a secondary issue which must be pitched very close to the price already available in the market? Normally you would sell such shares at a 5 per cent discount to the prevailing price. But that will not pull in a public spoiled by Telecom and TSB-style premia. I notice that you need only a few hundred million pounds from BP in the coming financial year. So I propose that you sell the shares at a 3 per cent discount, but only £1 down. The remaining £7.25 or so can be pulled in later. That 3 per cent discount on the fully paid price will be translated into a 25 per cent premium for the highly-geared partly paid stock, to be followed by the usual scenes of mounted policemen controlling the crowd outside the receiving banks.

The slight risk with my method, as it is only fair to tell you, is that, if the fully paid value of BP shares falls by more than about 15 per cent, then the partly paid stock will have negative value, and no one will pay the second instalment. But I have thought of that, too. I suggest that BP Finance International be asked to undertake to buy back and cancel the shares in that unlikely eventuality. BP can afford it, and it could be terrific for earnings per share.



My proposals will save you not just bankers' fees but also £100m, by shaving 2 points off the discount. Then we split the money saved fifty-fifty. Can't say fairer than that. I am not even asking you to put the cost of placing a large bet on a Conservative defeat at the election, hedging against the chance that new management withholds my modest fee.

Your obedient servant, Lex.

Sterling bonds

The debenture market is dead, long live the debenture market. Corporate treasurers may have cash flowing out of their ears, but they are none the less once more seeking to improve the maturity of borrowings through long-term fixed-interest debt. The bond market is turning out more new issues than it did in its last spurt (this time last year), and the window is not about to slam shut.

Lower interest rates alone cannot claim credit for this issuers market. The new capital adequacy rules for banks are starting to increase the cost of unused short-term facilities for borrowers. Also the fall-off in the supply of gilt-edged issues should stimulate interest in corporate bonds among investors; and under-employed gilt market-makers will be only too glad to find something else to trade.

But the Government's old dream of promoting corporate borrowing through the debenture market is looking increasingly irrelevant as the barriers between the domestic sterling bond market and the Euro-sterling bond market wither away. When ICI can quickly and easily raise 20-year money at fine rates in the Euro-sterling market, why should it go to the trouble of queuing up to launch a debenture issue weighed down with tiresome covenants? That may be acceptable for property companies which are in effect able to offer a mortgage on their assets, but these days there are not many other takers.

The new world is not, however, a perfect one. An Euro-sterling bond may be a suitable vehicle for the big boys with names well-known to the cosmopolitan (and fussy) Euro-investors who still dominate these issues. But middle-ranking manufacturers unknown in Luxembourg would probably fare better in a thriving domestic bond market. And as the past year has shown, the Euro-sterling market can be immensely fickle, with foreign interest ebbing and flowing with the fortunes of sterling. Anecdotal evidence suggests that foreigners are gradually becoming longer-term holders, which the post-budget mood should encourage, but they are also notoriously sensitive to political risk.

What seems to be developing is a two-tier Euro-sterling market with the smaller UK companies attracting mainly domestic investors – a domestic market with Euro-customs. Until very recently the UK institutions would fiercely have resisted such a trend, but there are now clear signs of a more liberal attitude. This should not be exaggerated. There are still plenty of covenant-worshippers, but the new single-figure yields are more familiar and attractive to foreign investors. But the fact that UK institutions have been sitting on their hands over the past few weeks does not detract from their growing presence in the longer-dated end, and the greater staying power of foreign investment in these issues is reducing that volatility which was always such a worry to domestic lenders.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday March 23 1987

INTERNATIONAL BONDS

Repackaging solution on trial for perpetual floaters

THERE HAS been no end recently to the brain power Euromarket bankers have been applying to the problem of finding a "floor" value for perpetual floating-rate notes. Last Friday, Morgan Guaranty said it had come up with an idea that could provide the answer, writes Clare Pearson in London.

Perpetuals, which have no maturity dates and have been issued mainly by banks because in some countries they count as primary capital, have suffered dramatic price falls over the last few months.

Quantities of loss-making paper have been left on underwriters' books. Some dealers have judged that, as there are no signs of a natural revival in the market for these instruments, the only way to get rid of the paper is to repackage it as a different kind of bond of which the investor can more readily assess the value.

Morgan Guaranty's "solution" a repackaging of a perpetual issued by Westpac, the Australian bank – was greeted with scepticism by the market, however. It might attract new buyers, they said, but it did little to solve the problems faced by the existing investors, mainly Japanese banks, who are still left trying to find a way of evaluating their holdings before their financial year-end, now a week away.

Morgan Guaranty created two new instruments out of $130m worth of the perpetual: a zero coupon bond which buys the original perpetual in 15 years' time and a new 15-year FRN paying interest at London interbank offered rate (Libor) plus 50 basis points, 35 basis points more than the coupon on the original bond.

The structure works like this: Pacific Securities, a special purpose vehicle, issues the two new securities; it uses part of the proceeds of the sale to buy the perpetual at a discount, and the rest it places on free deposit with Westpac.

In return for this, Westpac agrees to pay the extra 35 basis points per annum in income to holders of the new FRN and to pay them back at par after 15 years. To do so, it uses the earnings on the deposit.

Meanwhile, Pacific Securities pays the zero coupon bond holders the perpetual that it has bought after 15 years.

The correct value of the perpetual, Morgan Guarantly argues, is then the price at which it has to be bought in order to generate exactly all the funds needed to meet the obligations to the new investors.

The new FRN should appeal to a variety of floating-rate investors because it has a maturity like that of a conventional FRN but an unusually generous coupon.

Meanwhile the zero coupon security is, as Morgan Guaranty put it, "something for the punters." It is more like a warrant into a security than a normal zero coupon bond, which is redeemable at par. The purchaser has to take a view on the price at which he is likely to be repaid, which will be the price at which the original perpetual is trading at the end of 15 years.

He may think the risk worthwhile, however, since he might achieve a much higher yield than those available on normal zero coupon investments.

For instance, if the perpetual is worth 80 in 15 years' time, and the investor buys the zero at 18½, he will achieve a compound annual rate of return of about 10 per cent – nearly 3 percentage points higher than the current yield on comparable US Treasury bonds.

Additionally, he may enjoy an attractive tax break. Morgan Guaranty said the UK Inland Revenue had indicated that, unlike conventional zero coupon bonds, the implied yield on these securities would not be taxable until they were sold.

The key difference between Pacific Securities and previous repackaging of perpetuals is that it is aimed at new investors.

Earlier attempts had hinged on tacking a zero coupon US Treasury bond on to an existing perpetual which had fallen to a discount. The idea was that investors would still enjoy the yield from the perpetual but would have the comfort of knowing the zero would repay their principal after a given number of years.

In fact, existing investors tended to reject the scheme. In addition, the new security had a "two-name" credit backing – something that Eurobond buyers dislike even if one of the names is the US Government.

Aside from these considerations, the Japanese banks were uninterested in these solutions because they have a fundamental problem with perpetuals that no amount of restructuring can solve: this is that many perpetuals count as primary capital.

The Japanese banks' fear is that domestic authorities will eventually fall into line with the US-UK agreement by which banks' holdings of other banks' perpetuals must be deducted from their own capital bases.

The new FRN issued by Pacific Securities is unlikely to look like an attractive alernative to them since it is at least partly secured on the original perpetual – although this element decreases over time as the amount on deposit with Westpac, which counts as senior debt, builds up.

In this context the only usefulness of Morgan Guaranty's structure to the market is that it may bring in new investors who do not have reason to dislike perpetuals as a breed.

To Morgan Guaranty, on the other hand, its usefulness is clear. Pacific Securities supplied it with a means of getting the Westpac bonds off its books without registering a loss.

Amax stock offering to raise $300m

BY WILLIAM HALL IN NEW YORK

AMAX, the international mining group which made its first profit for five years in 1986, plans to raise close to $300m through a common stock offering in the US and overseas.

Amax announced last week that it had filed a registration statement with the US Securities and Exchange Commission relating to 15.7m shares of its common stock.

Of the shares to be offered, 15m will be offered by the company and 760,000 will be offered by a selling shareholder, Mitsui USA.

Out of the total, 12.6m will be offered in the US through underwriters led by first Boston, Shearson Lehman Brothers, Goldman Sachs and Merrill Lynch Capital Markets. Some 3.15m shares will be offered outside the US through a syndicate lead-managed by Credit Suisse first Boston, Shearson Lehman Brothers International, Goldman Sachs International and Merrill Lynch International.

The company, which has aobut 74m shares outstanding, intends to use the net proceeds to reduce indebtedness incurred under various revolving credit arrangements and to repurchase or repay from time to time other outstanding indebtedness.

Amax's decision to increase its equity by around a fifth underlines its efforts to strengthen its balance sheets after years during which it has lost a total of $1.7bn and its shareholders funds have. fallen from $2.5bn to under $1bn. Last year Amax earned $14.3m.

EURONOTES AND CREDITS

Why the boundary is now blurred between FRNs and loans

WHEN interest-rate margins on floating-rate notes started to sink some years ago to levels far below equivalent syndicated credits, those charged with finding buyers for the instruments would often be asked to justify the difference, writes Stephen Fidler in London.

With rare incisiveness, issuing houses would often reply with one word: liquidity.

So when liquidity in the floating-rate note market dries up, as it has several times in recent months, leaving holders of the instruments with difficulty in selling their stakes, what then is the difference between an FRN and a credit?

The FRN market has not, for instance, uncovered new investors. The banks, instead of lending money through the syndicated credit market, have been lending by buying FRNs.

This has led some bankers to wonder whether the focus of the last few years on so-called "securitisation" of world markets has really clouded the picture. In other words, there is not really much difference between an FRN and a loan, and banks might do well to recognise this blurring of what previously seemed a precisely defined boundary.

There are several factors which militate against a blending of the two markets, however. Not least among them is the formal division between the securities and commercial banking subsidiaries at many international banks.

Then of course, there are the lawyers. FRN documentation, for example, may not be as protective of the banks as the more extensive documentation involving a syndicated credit.

There is also the question of yield preferences. Because of the emphasis at Japanese banks on ordinary rather than extraordinary income, they prefer instruments with a higher current yield. Buying low-yielding discounted FRNs hardly fits in with that philosophy.

Other banks regional Japanese institutions, for example, fund their dollar loans at rates close to London interbank offered rates (Libor). Buying a discounted FRN could give them a yield to redemption higher than Libor, but a current yield below the cost of funds.

Regulatory attitudes here are important. Proposals by the US and UK would establish a series of risk weightings to particular types of instruments. The higher the weighting, the more capital needed to back it. If an FRN and a loan are, as is possible, assigned the same risk weighting, then the distinction between the two in bankers' minds will continue to fade.

The syndicated credit market had a quiet week although a few deals surfaced late on, including one from Morgan Grenfell which refinanced $44.3m of Mexico's official debt to Italy, guaranteed by the Italian export credit agency SACE.

The financing, involving the creation of a single purpose company, Italfunding, is a fully underwritten revolving financing facility with an average life of seven years and a final maturity of June 1996.

Morgan Grenfell has so far made this sector of the market its own, having arranged refinancing of two SACE deals with Brazil and Ecuador and one with Brazil and Britain's ECGD, although the new deal is the first to use short-term note facilities. More are thought to be on the way.

Elsewhere, Algeria's bumpy progress in the market continued. Lloyds Merchant Bank dropped a £75m bankers acceptance facility for the Algerian state oil and gas corporation Sonatrach.

Lloyds was originally mandated to raise five-year money. But difficulties with this, partly due to the almost simultaneous launching of a deal for another Algerian borrower, forced the bank to lower its proposed maturity to 12 months. The Algerians were apparently not happy with one-year money and withdrew.

The partial cause of Lloyds' difficulties – the other borrowing for Crédit Populaire of Algeria through Long Term Credit Bank of Japan – is near completion. A $75m portion over seven years with four years' grace and a spread of ⅝ of a point over Libor have been signed. A leasing tranche syndicated among Japanese banks was oversubscribed and is likely to exceed Y10bn.

Union Bank of Switzerland was mandated by the UK property concern, Mountleigh, to put together a £100m multi-option facility. It is an "evergreen" facility, which can be cancelled only after the underwriters have given 61 months' notice, and it carries a facility fee of ⅛ per cent. The options include cash advances, sterling bills where permissible, and sterling commercial paper with a tender panel.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,703.8	178.8	69.9	4,749.3
Prev	2,333.1	155.4	6.0	4,882.0
Other	3,962.1	157.4	601.5	354.9
Prev	2,990.0	69.0	28.4	438.8
Secondary Market				
US$	16,059.9	1,508.6	13,625.1	8,778.6
Prev	21,634.8	1,777.3	14,205.0	6,242.0
Other	18,734.8	617.5	4,181.2	7,909.0
Prev	18,225.7	1,062.5	3,224.6	8,958.7

	Cedel	Euroclear	Total
US$	13,879.5	35,773.6	49,653.1
Prev	15,119.0	34,316.6	49,435.6
Other	13,689.8	22,628.6	36,318.4
Prev	13,227.0	21,748.5	34,975.5

Week to March 19 1987 *Source: AIBD*

Pan Am loses heavily

BY ANATOLE KALETSKY IN NEW YORK

PAN AM, parent company of the US international airline, lost $462.8m after tax in 1986 after suffering $65m in special charges in the fourth quarter. The large loss is bound to increase doubts about Pan Am's capacity for independent survival and intensify speculation about a takeover of the troubled airline.

In 1985 Pan Am made a profit of $51.8m, as a result of a one-off $341m gain from the sale of its Pacific division to United Airlines.

Pan Am's net loss in the fourth quarter of 1986 was $197.5m, including the $65m of charges connected with the start of a shuttle service between New York, Washington and Boston, lease termination costs and other special factors. The profit of $241.4m recorded in the corresponding quarter a year earlier was due entirely to the Pacific division sale.

Despite the larger than expected loss, Pan Am's share price held steady on Friday, closing unchanged at $4⅛ in heavy trading trading.

Italian bank suffers big setback

BY ALAN FRIEDMAN IN MILAN

BANCA d'America e d'Italia (BAI), the 98-branch bank which West Germany's Deutsche Bank acquired last December from Bank of America, has announced a sharp drop in 1986 net profit.

Heavy provisions for bad and doubtful debts, together with leasing losses and a new policy of transferring more profits to reserves, saw BAI's net profit tumble from L47bn ($36m) in 1985 to just L1.2bn.

The bank's total deposits at the end of 1986 were L3.691bn, up eight per cent, while the total loan book came to L2.448bn, up 12.6 per cent.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Budget kicks off guessing game on yield prospects

HAVING reached dizzy heights in the euphoria both before and after last Tuesday's Budget, now is the time for the UK government bond market to take a cooler look at its prospects over the next few weeks and months.

By last Friday, the FT high coupon long dated average yield had fallen to 8.88 per cent, not far from last year's peak on April 18 at 8.73 per cent.

The only question now being asked by primary dealers in gilts (and it must not be forgotten that they have all done very well out of the recent bull market and have built up long positions, many of which are still in place) is how much further yields can fall.

Talk of 8.5 per cent or even 8 per cent yields at the longer-dated end of the market is rife.

There is no doubt that the Budget was tailor-made for gilts. It not only held out the prospect of a tantalisingly low funding programme next year but it also appeared to encourage an improvement in inflation expectations.

Building societies responded more quickly than one could have guessed to the two half-point reductions in base lending rates. If the other societies follow, the retail price index should be depressed by 0.36 per cent, according to the Department of Employment (and nearer 0.45 per cent by the Treasury). The effect is likely to come through in May to June. April's RPI should be helped by the absence of indexation of excise duties in the Budget.

This could mean that the annual rate of inflation may never get to the 4.5 per cent peak which the Chancellor forecast for the summer months.

Much hangs on how much the rally has been based on the hype surrounding the Budget and election fever and how much of a fundamental re-rating of sterling fixed interest markets there has been.

The popularity of gilts with foreigners has been based on a combination of attractive real yields and, in recent weeks, the prospect of currency gains.

Now it has emerged strongly that the Government has a policy ceiling for sterling, if not an immovable upper target limit. This, as well as natural profit-taking on long sterling positions given the strides made recently, could limit sterling gains in the short term and inject a note of caution into foreign buying of gilts.

Nevertheless, nobody is talking about sterling falling out of bed and simple stability in the sterling exchange rate, coupled with what could turn out to be a shortage in 1987-88 of fresh stock and confidence in a Conservative victory in the election, should keep overseas investors interested.

Although comparable yields may not be as important given current market thinking than these sort of factors, it is still interesting to see where the gilt market is placed and the picture seems to be mixed. Generally speaking, short gilts have maintained their yield advantage but longs haven't.

Taking the 10-year area, there is probably little to choose between the West German and British bond markets on yield grounds.

Against 10-year US Treasury bonds, the yield advantage has fallen near to historical lows but gilts may still attract because, at least now, there is perceived to be a greater currency risk on the dollar than on sterling.

There is more scope for gilt yields to fall against Japanese bonds. Japan is coming to the end of its financial year when fund managers reassess the make-up of their foreign portfolios. They have already been diversifying out of US securities and their decision on how much to commit to Britain will be key to gilts this year.

Figures from the Securities Dealers Association of Japan show holdings of UK gilts rose to 6.7 per cent of total overseas foreign bond holdings in January. Mr Paul Temperton, chief gilts economist at Merrill Lynch Government Securities, said if this proportion were to rise to 10 per cent (which would be a fair level given the size of the gilt market) this would mean just over £2bn of fresh investment, accounting for roughly half of his estimate of net new issues of gilts in 1987/88.

Janet Bush

US MONEY AND CREDIT

Bogged down by boredom factor

BOREDOM, frustration and lethargy havet been the watchwords for several months now in the US bond markets. And there is nothing on the economic horizon to relieve the tedium of 7 to 8 per cent bond yields.

So far this year the Treasury long bond has drifted in a trading range of 98¾ to 102¼, and yields have never strayed outside a narrow 7.28 to 7.60 bracket. The lack of volatility is helping to deflate the massive trading volumes and with them presumably the enormous profits and bonuses which bond dealers and salesmen had come to regard as their birthright.

It is hardly surprising therefore that some bond traders are starting to cast envious glances at the equity salesmen who have become the investment community's new superstars. But the dealers' particular irritation is reserved for their colleagues in the economic forecasting departments, who seem unable to come up with any theory, or point to any trend or statistic either to enthuse or to dismay the market.

"Confusion" about the economic prospects is now the standard explanation for the torpor in the fixed-interest business. If only somebody could figure out where the economy was really heading, the market would spring back into action and life would revert to normal.

But does "confusion" really explain the market's doldrums or is investors' inertia really a consequence of the precise opposite—an unusually strong consensus that there is nothing more nor less in prospect for the US economy than more of the kind of satisfactory, if lacklustre, performance which we have seen for the past two years.

Economists, like their friends on the dealing desks, are in the business of selling volatility and change. Yet today they are remarkably united in predicting steady growth with moderate inflation and a slowly improving trade balance in the year ahead. The only serious source of confusion lies with economists who work for bond brokerage houses: how to turn an unremittingly boring story of interest rate stability into an exciting strategy for high volume trading.

If the economists' predictions are right, and there is neither a recession nor a serious new spiral of inflation on the horizon, it may be very difficult to solve this last conundrum. The bond market may never see again the glory days of volatility which ended soon after the bull market ran out of steam in the spring last year.

For as long as the underlying inflation rate continues to hover around the 4 per cent mark, there can be little prospect of a big fall in long-term interest rates. As long as the economy continues to chug along at a relatively sluggish growth rate, while the trade deficit militates against a stronger dollar, there can be little reason for monetary policy to be tightened or for inflation to accelerate of its own accord.

In other words, what the bond market now needs to get its juices flowing is not economic clarity, but economic trouble. To push bond prices much outside their current trading range, definite signs either of recession or of inflation will have to come into view. Judging by January's economic statistics, recession seemed marginally the more likely prospect. But February's figures have tended to confirm that the weak indicators from January had more to do with year-end tax related distortions than any significant weakening in US demand. On the whole, there seems to be no reason why the delicate balance between inflationary and deflationary forces, which has been kept by the authorities for over three years now, should not continue to be preserved.

Sooner or later, of course, there will be a US recession. Even before that happens, a big fall in international interest rates could be provoked by a recession in West Germany and Japan as their industries lose export markets in the US.

However, until investors start believing in the possibility of a serious worldwide recession, the bond pitch does not look the place to have fun on Wall Street.

The following are the economic indicators due for release this week, along with the median market expectations, as surveyed on Friday by Money Market Services of Redwood City, California.

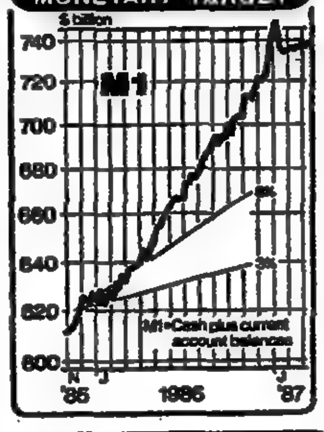
Durable Goods Orders (due Tuesday) are thought to have rebounded strongly in February from January's near record decline. The median estimate for the February figure is a rise of 4 per cent, compared with a fall of 6.7 per cent in January and increases of 1.5 per cent and 5.1 per cent in December and November.

January's drop in orders was generally interpreted as a "payback" for the sharply higher capital spending which preceded the December 31 tax reform deadline. However, there is considerable disagreement about how big a recovery in February to expect, with the 38 forecasts surveyed by Money Market Services ranging from a rise of 0.7 per cent to a jump of 7.0 per cent.

The Consumer Price Index for February (due Friday) is expected to show a moderate rise of 0.3 per cent after the disturbing 0.7 per cent jump recorded the month before. Analysts are united in expecting a marked deceleration of price inflation, with estimates ranging from 0.2 per cent to 0.5 per cent. The index of producer prices, already announced for February, showed a rise of only 0.2 per cent for the month, after the surge of 0.7 per cent in January, and forecasters see no reason why consumer prices should not follow the same pattern. In the longer term, however, a further acceleration in US price inflation is widely expected as a result of rising energy and import prices.

Anatole Kaletsky

FEDERAL RESERVE MONETARY TARGET



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12 months High	12 months Low
Fed Funds (weekly average)	6.08	6.20	6.19	11.[illegible]	[illegible]
Three-month Treasury bills	5.52	5.62	[illegible]	[illegible]	[illegible]
Six-month Treasury bills	5.55	5.61	5.58	[illegible]	[illegible]
Three-month prime CDs	6.18	6.20	6.17	7.20	[illegible]
30-day Commercial Paper	6.20	6.18	6.05	7.30	[illegible]
90-day Commercial Paper	6.18	6.10	6.00	7.20	[illegible]

US BOND PRICES AND YIELDS (%)

	Last Friday	Change on week	Yield	1 week ago	4 wks ago
Seven-year Treasury	99¾	− ⅛	7.02	7.00	7.05
20-year Treasury	117¾	− ⅛	7.64	7.63	7.73
30-year Treasury	99¾	− ⅛	7.53	7.50	7.58
New 10-year "A" Financial	N/A	N/A	8.60	7.95	8.00
New "AA" Long utility	N/A	N/A	8.60	8.50	8.58
New "AA" Long Industrial	N/A	N/A	8.60	8.55	8.60

Source: Salomon Bros (estimates).

Money Supply: In the week ended March 9 M1 rose $500m to $738.7bn.

NRI TOKYO BOND INDEX

December 1983 = 100	19/3/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	138.05	4.12	137.50	131.90	128.38
Government Bonds	138.46	3.73	138.87	132.78	129.87
Municipal Bonds	138.81	4.57	138.13	132.21	128.29
Government-guaranteed Bonds	139.54	4.61	139.16	132.94	129.84
Bank Debentures	132.52	3.87	132.21	128.28	126.14
Corporate Bonds	138.33	5.11	135.89	130.46	127.59
Yen-denominated Foreign Bonds	136.83	6.20	136.24	132.91	129.26
Government 10-year†	4.83	—	4.93	5.35	5.59

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg. on week	Yield
ABN Bank 8½ 91	150	100⅝	+0⅛	7.87
Aetna Life & Cas 7⅛ 15	200	100⅝	0	7.72
AHFC O/S Fin 11½ 94	100	103	0	11.00
AIDC 11 89	75	108⅝	−0⅛	7.29
Alcoa Australia 11 92	50	105⅝	+0⅛	9.40
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Penney J C 11¾ 90	100	103	0	10.75
Penney J C 12¾ 91	100	111½	0	9.48
Pepsico Capital 8⅝ 91	100	103⅝	+0⅛	7.40
Petro-Canada 7⅝ 96	200	95⅝	+0⅛	8.02
Philip Morris 9⅝ 96	200	103⅝	+0⅛	8.46
PostOch Kred 12½ 87	50	101⅞	0	7.30
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Elders Uk 5⅛ 98	175	118⅝	+2⅝	[illegible]
Fanuc 3⅝ 98	90	206⅝	−3⅝	−7.37
Fujitsu 3 99	180	119	−1⅛	−6.09
Gibraltar Savings 7⅛ 06	100	108⅝	+0⅛	[illegible]
ITT 4⅞ 87	80	114½	+1	[illegible]
Kinder-Care Int 6⅛ 88	[illegible]	124	+3⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospectus values HK hotel at $200m

BY DAVID DODWELL IN HONG KONG

HONG KONG's luxurious Mandarin Hotel is worth HK$1.55bn ($200m), according to valuations released at the weekend as part of a prospectus of the Mandarin Oriental Hotels group, to be floated in April by its parent, Hongkong Land Properties.

The Oriental Hotel in Bangkok, which is the Mandarin's sister hotel, and is generally rated to be the world's best hotel, is worth HK$780m—the lower price tag having more to do with lower property values in Thailand than to any of the hotel's intrinsic qualities.

According to the prospectus posted to shareholders on Saturday, 80 per cent of the Mandarin's shares are to be offered to existing shareholders of Hongkong Land at a likely price of HK$1.54 a share. They will get one Mandarin share for every five Land shares.

At the time of flotation, the Mandarin group will include the Excelsior Hotel in Hong Kong, a portfolio of overseas properties managed by the Mandarin group, and a hotel management business. The Vancouver Mandarin, estimated to have incurred losses of HK$17m in 1986, will be hived-off from the new Mandarin group and retained inside Hongkong Land.

With the Mandarin prospectus, Hongkong Land shareholders were also given details of proposals to dispose of its 32 per cent holding in Jardine Strategic Holdings, the ultimate controlling shareholder both of Land and of the Mandarin. Land shareholders will be offered 93 Jardine Strategic shares for every 1,000 shares held in Land, at a price of HK$3.28 per Jardine Strategic share.

The flotation of the Mandarin group is the last stage in a six month process through which the Land group has been pruned back to become a pure property group. Its interlocking shareholdings with Jardine Matheson have been unravelled, and the Dairy Farm retailing group, once wholly-owned by Land, was sold to Land shareholders late last year.

The disposal programme, while bringing substantial windfall gains to shareholders in Hongkong Land, has been used to trim debts in a group that three years ago was almost suffocated under the weight of debts amounting to more than HK$16bn. At the end of 1986, Land's long-term debt had been trimmed to HK$6.39bn.

Following the sale of the Mandarin group, and the sale of its land bank to another local property group, debt is likely to have fallen to below HK$4bn. This would give Hongkong Land a ratio of debt to equity of about 20 per cent.

German metals group lifts net profit by 12%

By Our Financial Staff

METALLGESELLSCHAFT, the West German metals, trading and transport group, reports higher profits for the year ended September 1986 and says it plans to pay a maintained dividend.

Against DM 61.4m in the previous year, the group has turned in a net profit of DM 69.9m ($38m), an increase of 12 per cent. The dividend is to be held at DM 6 a share.

The result, which was announced late on Friday, took analysts by surprise. Some improvement had been expected but the strength of last year's profit gain was way outside most target ranges.

As recently as December the company had forecast an upturn in profit despite the weakness of metal prices. It explained that extra-ordinary expenses looked like making up for lower operating profits.

But industry observers were suggesting over the weekend that Metallgesellschaft's performance last year arose mostly from the impact of recent major disposals.

Exxon France to raise payout

ESSO, the French subsidiary of the Exxon group, announces a steep reduction in its operating loss for last year and intends to pay a higher dividend for the first time in seven years, reports AP-DJ from Paris.

Mr Claude Roux, the president, said the company's board had approved the payment of a net dividend of FFr 25 a share, up from the FFr 20. Operating losses for 1986 had shrunk to FFr 696m ($114m) from FFr 1.5bn in 1985.

CGCT bidder modifies structure

BY PAUL BETTS IN PARIS

AMERICAN Telephone and Telegraph (AT&T) and Philips of The Netherlands have modified the structure of their consortium bidding for control of CGCT to comply with the French Government's privatisation rules.

AT&T and Philips had linked up with the French telecommunications group, SAT, and a number of financial partners to bid for CGCT against Siemens, Ericsson and Northern Telecom. But the US-Dutch consortium, APT, included French unit trusts controlled by Dutch and US banking groups.

This had raised doubts over the "Frenchness" of the APT group bidding for CGCT, the nationalised telecommunications group to be sold by the French Government for FFr 500m ($82m) in the coming weeks.

Under the French privatisation rules, foreign investors can initially only acquire up to 20 per cent of a privatised company.

As a result of the doubts raised by its consortium, APT has now enlisted as partners of its consortium the French SAGEM group, which is the majority shareholder in the SAT telecommunications concern, and Omnium Financier de Paris, a financial company owned by the French Total oil group.

SAGEM and the Total subsidiary will each take a 20 per cent stake in the APT consortium bidding for CGCT replacing the five unit trusts owned by the Dutch controlled Neuflize - Schlumberger - Mallet bank and Morgan Guaranty.

ATP has long been regarded as the frontrunner in the international bidding battle for CGCT but has been facing increasing competition. Government is due to decide on the sale of CGCT by the end of next month.

Canadian bond activity soars

BY OUR TORONTO CORRESPONDENT

HEAVY inflows of foreign investment, drawn by a strong currency and attractive interest rates, have contributed to a dramatic increase in activity on Canadian financial markets.

A survey published by the Toronto-based Investment Dealers Association estimates that bond trading volumes climbed by 29 per cent last year to C$285bn (US$219bn). The biggest increase was a 51 per cent jump in medium-term government of Canada bonds, which have been especially popular among Japanese investors.

Earlier, Statistics Canada reported that net purchases of Canadian bonds by non-residents more than doubled last year to C$23.1bn. Japanese purchases jumped from C$2.9bn to C$9.5bn, of which C$6.6bn was bought in the secondary market.

Foreign purchases of Euro-Canadian dollar bonds rose from C$7.9bn in 1985 to C$14.6bn last year.

The surge in buying is both a result and a cause of the accelerating appreciation of the Canadian dollar against the US currency in the past year. Since touching a record low of 69 US cents during a foreign exchange crisis in February 1986, the Canadian unit has advanced above 76 US cents.

Although the gap between US and Canadian interest rates has narrowed, Canadian capital and money market yields are still between 100 and 150 basis points above those on equivalent US instruments.

Buying by Japanese institutions has slowed down in recent weeks, but is expected to resume after the start of their fiscal year in April. According to McLeod Young Weir, "Japanese investors are still bullish on the Canadian dollar at current levels."

The IDA also reports that money market volumes handled by investment dealers claimed by 18 per cent last year to $850bn, due mainly to larger issues of Federal Treasury bills and bankers acceptances.

Common equity financings on Canadian stock exchanges soared by 44 per cent to a record C$8.4bn. Companies floated 385 common equity issues last year, compared to 340 in 1985.

Share prices on the Toronto Stock Exchange have soared by more than a third since January 1986, with most of the increase taking place in the past three months. The TSE has been one of the strongest performers among world stock markets this year.

Henkel ahead despite lower turnover

By Andrew Fisher in Frankfurt

HENKEL, the West German specialty chemicals company, best known for its range of washing powders, said profits went up sharply last year.

It gave no figures, but expectations within the industry are for an advance from the DM 177m net profit of 1985 to more than DM 200m ($109m) and a dividend increase on the DM 3 per preference share paid for that year.

Henkel issued the non-voting shares late in 1985 to raise more than DM 400m. It has since expanded its activities in the US, Japan, and western Europe

The Düsseldorf-based group said turnover slipped by 5 per cent to DM 8.8bn in 1986 as a result of the effects of currency changes. On a volume basis, there was a rise of 6 per cent.

For this year, Henkel is forecasting further growth. The company, controlled by the Henkel family, also said it would raise its 23 per cent stake in Clorox, the US household cleanser and food concern, to 30 per cent through stock market purchases.

First earnings at Carnegie

By Sara Webb in Stockholm

CARNEGIE, the Swedish retailing wholesale, property management and financial services group, reports profits (after financial items) of SKr 344m ($53.8m) for 1986.

The Carnegie group was formed when the trading group Saba took over the investment house, Carnegie, at the beginning of 1986. Saba reported profits (after financial items) of SKr 202m in 1985.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
U.S. DOLLARS							
Hawley Group (a)‡‡	175	2002	15	5¾	100	CSFB	5.750
Home Shopping §	150	2002	12.2	5½	100	Drexel Burnham L'bert	5.500
Kawasaki Steel ‡	30	1994	7	(b)	101⅞	Wako Int. (Europe)	—
Meritor Savings Bank ‡	200	1992	5	7½	101⅜	Goldman Sachs Int.	7.183
C. Itoh Finance ‡	30	1992	5	(d)	100.1	Wako Int. (Europe)	—
N. Zealand Dairy B'rd ‡	100	1994	7	8	100⅜	Warburg Securities	7.967
Canon US **(f)†‡	10	1989	1¾	10bp	100½	Yamaichi Int. (Eur)	—
Nomura Int. Finance ‡	150	1992	5	7¼	101⅛	Nomura Int.	6.976
Pacific Securities (g)‡	130	2002	15	0	20.9	Morgan Guaranty	—
Pacific Securities (g)†‡		2002	15	50bp	100.1	Morgan Guaranty	—
CANADIAN DOLLARS							
City of Bergen ‡	50	1994	7	8⅝	101½	Bank of Tokyo Int.	8.334
GMAC Canada ‡	100	1992	5½	8½	101½	UBS (Secs)	8.132
Chrysler Cr. Canada ‡	75	1993	6	9¼	101½	Orion Royal Bank	8.916
Mun. of Metro. Toronto ‡	75	1997	10	8⅝	101⅛	Wood Gundy	8.578
Hamburgische Landesbk ‡	75	1990	3	8¼	101⅜	Merrill Lynch	7.719
Bank of Tokyo (C'ada) ‡	120	1994	7	8½	101⅛	Bank of Tokyo Int.	8.282
Household Fin. Corp. ‡	75	1994	7	9	101¾	Orion Royal Bank	8.658
AUSTRALIAN DOLLARS							
Swedish Ex. Credit (c)‡	220	1992	5	9½	101¾	Warburg Securities	6.850
Nat. Australia Bank ‡	40	1990	3	15	101¾	Orion Royal Bank	14.404
Austria ‡	75	1992	5	14⅛	101¾	CSFB	13.743
World Bank ‡	150	1992	5	0	53.0	Hambros Bank	13.530
Dresdner Finance ‡	100	1992	5	14⅝	101½	Dresdner Bank	13.838
WestLB Finance ‡	50	1992	5	14⅝	101½	WestLB	13.838
DG Finance ‡	50	1992	5	14⅝	101½	DG Bank	13.838
Sth A'tralia Gov. Fin. ‡	25	1992	5	0	51⅜	Hambros Bank	14.082
D-MARKS							
EIB ‡	400	1997	10	6⅛	100½	Deutsche Bank	5.991
Royal Insurance ‡	300	1992	5	5½	100	Commerzbank	5.500
SWISS FRANCS							
Sumitomo Corp. **§‡	200	1992	—	½	100	SBC	[illegible]
Kayaba Industry **‡	50	1992	—	4⅝	100¼	Crédit Suisse	4.893
Kobaya Baking Co. **‡	10	1992	—	4⅝	100⅛	LTCB (Schweiz)	4.586
Yamazaki Kinzoku **‡	14	1992	—	4⅝	100¼	Banca del Gottardo	4.583
Taihei Kako Co. **¶	40	1992	—	(1½)	100	Crédit Suisse	—
Toyobo Corp. **‡	50	1992	—	4⅝	100⅛	SBC	4.586
Toyobo Corp. **‡	50	1994	—	4¾	100	SBC	4.750
ECUs							
Denmark ‡	200	1992	5	7⅝	101⅞	Morgan Stanley	6.915
STERLING							
Rowntree Mackintosh §‡	65	2002	15	4½	100	J. H. Schroder Wagg	4.500
British Land §‡	33	2002	15	7½	101¾	CSFB	7.304
Land Securities ‡	100	2007	20	9½	95⅞	J.H. Schroder Wagg	10.000
Cheltenham & G'ster ‡	50	1992	5	9¼	101½	UBS (Secs)	8.928
DRG Plc §	40	2002	15½	(9–9¼)	100	Baring Brothers	*
MEPC ‡	75	2004	17	9⅝	99⅝	County NatWest	9.822
FRENCH FRANCS							
Midland Bank Int. †‡	900	1997	10	(e)	100	Société Générale	—
LUXEMBOURG FRANCS							
SKF **‡	300	1991	4	7⅜	100¼	BGL	7.301
EIB **‡	300	1994	7	7⅜	100	Caisse d'Ep. de l'Etat	7.375
DANISH KRONER							
Finance for Danish Ind. ‡	400	1992	5	11⅝	100¼	Privatbanken	11.307
LIRE							
Volvo ‡	75bn	1990	3	10⅛	100⅛	Banca Comm. Italiana	9.924
YEN							
Export Dev. Corp. ‡	15bn	1992	5½	4½	101⅞	Bank of Tokyo Int.	4.106
Exportfinans ‡	15bn	1992	5	5	103	Mitsubishi Fin. Int.	4.320
Toronto-Dominion Bk ‡	20bn	1992	5	4⅝	101⅝	Nomura Int.	4.257
Christiania Bank §‡	15bn	1992	5	7½	101¾	Yamaichi Int. (Eur)	7.072
Crédit Lyonnais ‡	10bn	1992	5	0	81.22	Nomura Int.	4.248
Am. Corp. of N.America ‡	15bn	1992	5	5	102⅞	IBJ Int.	4.460

* Not yet priced. ‡ Final terms. ** Private placement. † Floating rate notes. ¶ With equity warrants. ⊕ With currency warrants. § Convertible. ‡ Currency linked. (a) Convertible cumulative redeemable preference shares in form of international depositary receipts. (b) Coupon: 7⅝ in first year, rising to 8.44% in final year. (c) Option to receive principal and coupon payments partly in D-Marks. (d) Deferred coupon: first payment in year 3, set at the Libor plus 4% p.a. (e) 65bp over 13-week T-Bills first 5 years and 65bp remainder. (f) 18bp over 6m Libor. (g) 50bp over 6m Libor. Additional $70m tap. Holders of zero-coupon bonds will not be paid in cash at maturity but will be paid equivalent amount of Westpac perpetual FRNs. Note: Yields are calculated on AIBD basis.

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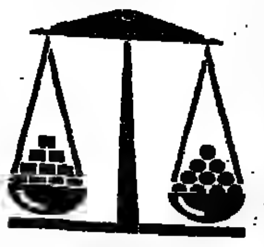
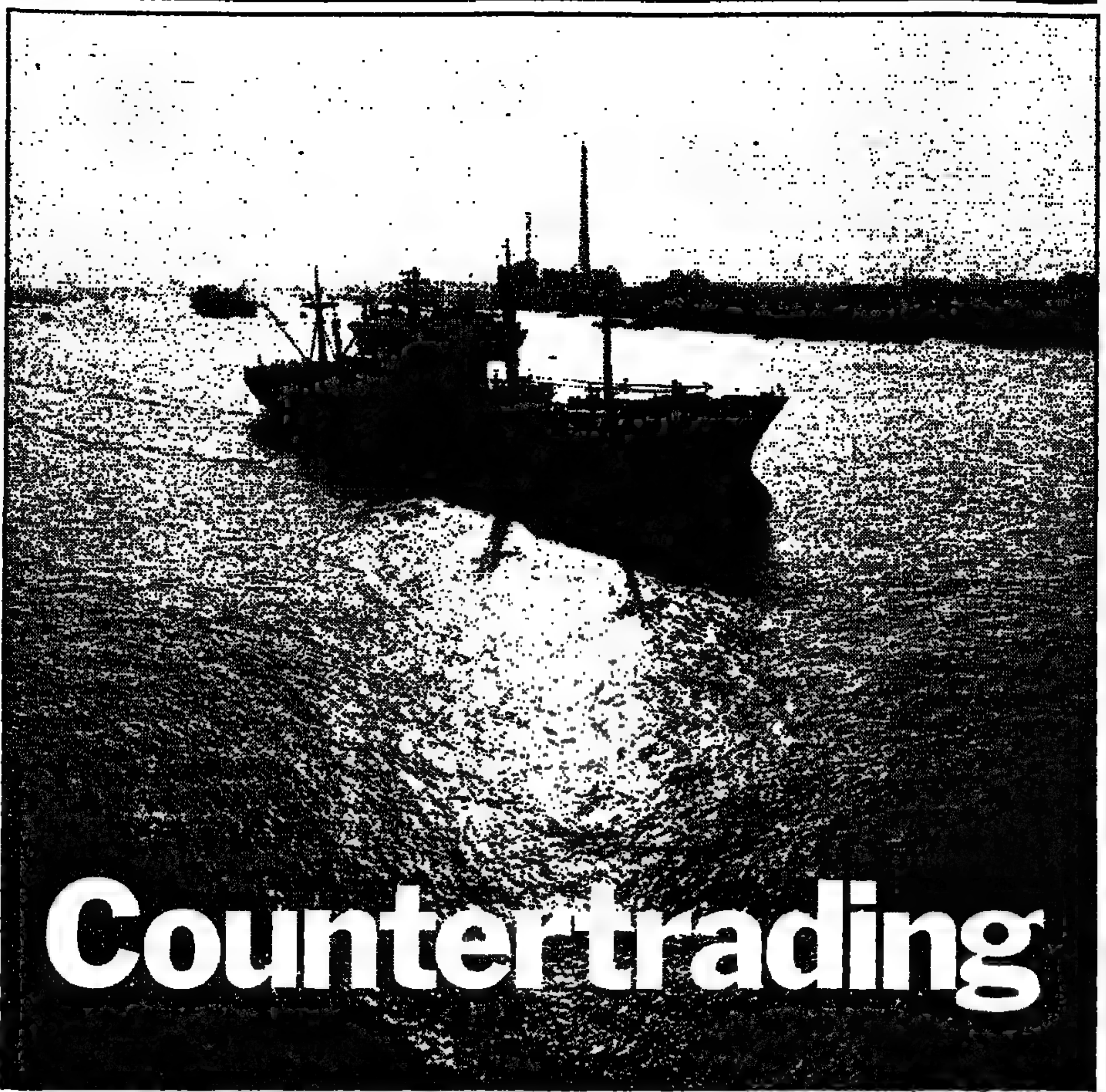
FINANCIAL TIMES SURVEY



The exchange of goods for goods, rather than cash, is enjoying steady growth, with much of the business concentrated in the Far East and the Comecon bloc. At least 100 nations now have countertrade policies, as **Peter Montagnon**, World Trade Editor, reports here.



China, rich in natural resources, is developing as an important source of countertrade business. Above, cargo ships leave Shanghai.
Picture by Hugh Routledge

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Rising significance in world exports

THREE or four years ago banks and trading houses around the world were looking for a boom in international countertrade as developing countries ran short of foreign exchange with the onset of their debt crisis.

Somewhat to the relief of officialdom in the developed world, which frowns on the practice of exchanging goods for other goods rather than cash, the boom failed to materialise. Yet, the evidence of the past year or so shows that countertrade is still enjoying a steady growth.

Already it has reached a point where exporters cannot ignore it if they wish to do business in many parts of the developing and Communist world.

About 100 countries now have formal and informal countertrade policies. While much of the business is concentrated in the Far East and in the Comecon bloc, some OECD countries such as Australia and New Zealand have an official countertrade policy. In the EEC, Greece is an active countertrader, while business is also active along the North African coast.

Expectations that countertrade will continue to grow have been fuelled by signs that developing country debt problems will not go away for the medium term. The countries affected will remain short of cash, while in the industrial world a surplus of manufacturing capacity means that businesses will still have to seek extra outlets for their manufactured goods.

The result is that the developing world has become a buyers' market where sales of Western manufactured goods are concerned. Developing countries can impose conditions on companies which want to sell to them. More and more frequently they are imposing the condition that—through one route or another—goods should be sold back in return.

Institutions such as the International Monetary Fund and Organisation for Economic Co-operation and Development have long frowned on this process, which, it is argued, acts like grit in the machinery of the world trading system.

Ideally, the world trading system should operate on open, multilateral lines with goods paid for by money or credit if it is to flourish and grow. Countertrade is essentially a closed, bilateral operation which distorts prices and competition and is ultimately inflationary because exporters are forced to push up their prices to offset the loss they expect to make on the goods they will receive in return. In one sense, the level of countertrade being conducted around the world at any one time is an indicator of the health (or lack of it) in the international trading system.

Countertrade has thus become a furtive, shadowy business, shrouded in secrecy and mystery. Not least because of the problem of definitions, no one keeps detailed statistics while estimates of the total volume of countertrade transactions vary widely. Most educated guesses suggest that somewhere between 5 and 10 per cent of total world trade involves a countertrade operation of some type or form. That still means a substantial turnover, worth between $100bn and $200bn a year.

Countertrade can work in several ways. Multinational companies, such as Boeing of the US which exports expensive capital goods, maintain their own internal departments which may be involved in arranging offset purchases from countries which buy their products—Britain's £800m purchase of the AWACS defence system is due to be offset with purchases in the UK worth about £1bn which Boeing itself will organise.

The exporting company can be required to set up manufacturing capacity in the purchasing country—a move which may have long-term strategic disadvantages for the business concerned. Or it can take goods and equipment from the purchasing country which are absorbed into its own network.

The extent of this type of practice is, however, very hard to gauge. Mostly the companies concerned keep their arrangements strictly secret and this is one of the reasons why accurate statistics for countertrade are so hard to come by. Where countertrade does come a little further into the open is at the sharper end where a range of banks and specialised trading houses act as advisers.

Big names among the latter category include M. G. Services, a subsidiary of the Metallgesellschaft and Louis Dreyfus groups, and Philipp Brothers, the US commodity house which is part of the Phibro-Salomon investment banking and commodity concern.

At this level the business is not only highly specialist—many houses tend to concentrate on individual product sectors or geographical regions—but also very competitive. Countertrading is more than mere barter. It can involve parallel trades in which the sale of goods to one country is only indirectly connected to the purchase of a separate range of goods from the importer.

It can involve an exporter who undertakes, for example, to develop a coal mine in China agreeing to take coal in part payment. That exporter may be good at marketing mining technology, but wholly inexperienced when it comes to coal which has to be placed with a third party, perhaps in an entirely different country.

At each stage along the line the risks are great, both in terms of finding the pricing right and in distributing the products which the developing or Comecon country has to sell. The chances of loss are high, while the prospects of making a lot of money are relatively slim. Countertrade experts reckon that the business is increasingly concentrated in the hands of a relatively few successful specialist players.

The origins of international countertrade in its modern form go back to East-West deals struck after World War Two when the Comecon bloc was short of hard currency. Vienna has long been established as an important centre for countertrade, though London has probably now overtaken it as the emphasis switches to include other parts of the world as well.

A sign of the growing importance of countertrade in the Far East is a change of heart by the Singapore authorities. Having actively discouraged countertrade until as recently as 1984, Singapore is now trying to establish itself as a regional centre for the business in the Far East with a new policy that will offer tax concessions to countertrade companies opening up to do business there.

Indonesia introduced a formal countertrade policy as long ago as 1982 and has now become one of the main countertrading countries in the region. Experts says its system is also one of the best-run and easiest to operate, but as the Indonesian Government has begun to concentrate more on financing public sector purchases through soft loans (which formally exclude countertrade provisions), the market there has turned rather quiet.

By contrast, expectations are that China will develop as an important source of countertrade business. It has been running down its foreign exchange surpluses but still needs to import Western technology to modernise its economy. India has also now announced a countertrade policy of its own, while Korea is looking to expand the offset arrangements it applies to military purchases into other areas as well. Other countries in the region which practise countertrade include Malaysia and Pakistan.

A striking fact about this list is that, while several may be short of foreign exchange and have large import requirements, none of these countries have actually had to reschedule their debts. Despite its apparent attraction to countries involved in debt rescheduling, countertrade has not recently proved particularly practical as a solution to them.

Peru, which pays its debts to the Soviet Union in goods that include personal computers, has been exploring the possibility of paying its debts to Western banks in kind, but so far has met little positive response. Nigeria has also been re-examining countertrade but without much tangible result.

One problem has been that it still makes more sense for these countries to sell their traditional commodity exports in the world markets for cash. Countertrade with developing countries originally involved mostly the exchange of commodities for manufactured goods, but especially as world commodity prices have been falling it makes little sense to forfeit additional income by diverting commodity production away to countertrade.

A stipulation of Peru's goods for debt scheme is that it should involve non-traditional exports. Faced with the fall in the oil price the Soviet Union is now offering consumer appliances for countertrade. As part of a recent deal with Indonesia involving a $337m sale of F-16 aircraft, General Dynamics undertook to market transport planes in the US to a value of $168m which are produced in Indonesia under a joint venure with Spain.

Deals like this are becoming more common. Faced with a shortfall in their commodity earnings, developing countries are turning to new industrial products for which they lack the international marketing expertise. It is the daunting task of countertraders to distribute these products in markets that are already rather cluttered.

Volume maintained in oil and natural gas deals

$20bn a year business

IF MEMBERS of the Organisation of Petroleum Exporting Countries were to abide solemnly by their commitments, countertrade in oil should become a phenomenon of the past within a year or so.

One important aspect of the pact hammered out by Opec in Geneva last December on the restoration of an official price structure was that they should phase out barter and counterpurchase deals together with other marketing "malpractices" as rapidly as possible.

There is little sign of their doing so, however. Countertrade seems destined to remain an important feature of the oil market for the indefinite future and at least until demand is sufficiently strong at some point in the next decade to keep prices not only buoyant but rising as well.

Countertrade emerged as a significant factor in 1983 as producers utilised it as a form of price discounting in a bid to maintain their market shares. With effective abandonment of official selling rates by Opec at the end of 1985 it seemed logical that there would be a marked drop in the volume of oil disposed of in such transactions and that they would largely be superceded by market-responsive "net-back" arrangements whereby rates for crude are tied to product realisations less transportation and processing costs. On the face of it, the attraction of what is a cumbersome form of trading looked as if it would diminish.

For international oil companies—or any other broker for that matter—acting as a third party counterpurchase deals became much more of a risk in 1986 because of the heightened chance of a sharp fall in market prices between agreement and delivery.

As it was, the perils of the business had been dramatically highlighted by the losses of Voest-Alpine Interhandel from its $1bn oil-for-goods deal with Iran in 1985, in the early part of which countertrade transactions reached their peak involving 2.5-3m b/d of oil.

Nevertheless, in 1986 the volume of Opec crude accounted for by countertrade averaged about the same level as in the previous year at about 2m b/d and was actually a higher proportion of the total than in the previous year at about 14 per cent compared with 12.5 per cent, according to the calculations of consultants Petroleum Economics Ltd. The London-based firm, a specialist in this field, in round figures, that recently Iraq has been the leading countertrader at about 500,000 b/d followed by Saudi Arabia and Iran with about 400,000 b/d each, Libya with 300,000 b/d, Algeria with 200,000 b/d and Nigeria with 100,000 b/d.

Business International, in a report completed late last year, calculated that Opec two-way countertrade in 1985 was worth $28bn and well over three-quarters of it was accounted for by Middle East members, with Brazil, South Korea, Turkey and Japan amongst prominent reciprocal suppliers of other goods and services.

With the fall in prices the value of the trade will have fallen substantially, of course, but is probably running at an annual rate of nearly $20bn.

In 1986, despite the increased hazards, two factors, in particular, combined to maintain the volume. One was the UK-Saudi government-to-government deal finalised in February last year under which British Aerospace as prime contractor is supplying the Kingdom with 132 aircraft, support services and training programmes.

The arrangement whereby Royal Dutch/Shell agreed to raise their liftings of Saudi crude to 300,000 b/d and pay the proceeds from the purchase into a special escrow account had the merit from the Saudi point of view of ensuring a market outlet—as well, perhaps, as making it possible to pay commissions to prominent figures in the ruling hierarchy, it is believed.

It remains obscure just how terms have been adjusted to official selling prices. Both companies were reluctant to commit themselves on anything more than a monthly basis. Clearly, though, all the parties to what are essentially parallel agreements linked by an understanding are committed to fulfilment of the project.

There are obvious financing problems—meaning that the British Government may have to underwrite some borrowing to the extent of $1bn to keep it afloat. The odds are, meanwhile, also that Saudi Arabia will resort to some counterpurchase arrangement if and when it goes ahead with the purchase of eight submarines and related facilities.

The other single most important factor sustaining the flow of Opec countertrade oil in 1986 was the debt-servicing problems of Iraq and Libya.

As early as 1982 Iraq concluded deals with France for the purchase of military aircraft which involved Compagnie des Petroles and Elf-Aquitaine lifting oil.

The pattern of increasing reliance on petroleum exchanges continued progressively, noteably with the $630m swap for Passat cars with Volkswagen do Brazil. Debts repayments look as if they will consume a growing proportion of the country's only important source of foreign exchange.

For at least three years Libya has been paying for its extravagant purchase of weapons from the Soviet Union by supplying oil which has subsequently been sold on the open market. The BI survey calculated that liftings of about 125,000 b/d were being made last autumn in respect of payment arrears owed to Moscow for military hardware.

Deliveries were being made not only to defray debts to foreign contractors but also to cover advance payments for future imports. Like Iraq, Libya's sentence as a prisoner of countertrade can only be prolonged.

In its desperation for foreign exchange Iran is second only to Iran amongst the oil producers, and the military pressure from the air raids from shipments from its Kharg Island has given it as bigger propensity for countertrade deals as its enemy in the long Gulf conflict.

The Voest Alpine affair hardly encouraged other suppliers. Nevertheless, the country's trade is dominated by two dozen bilateral trade agreements, not the least the one concluded with Turkey last summer covering exchanges worth $2.2bn. Since the most recent Opec pact was made, no less than 11 oil-for-goods arrangements have been monitored by PEL.

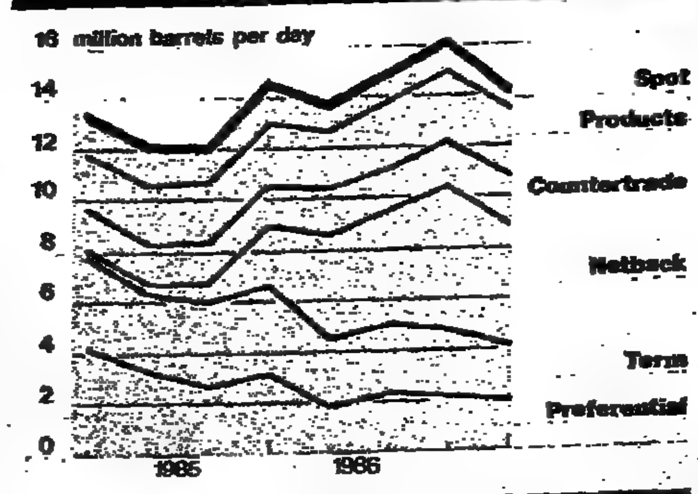
Even when demand is slack oil remains the most convertible commodity in world trade after precious metals. In a buyers' market the advantages of countertrade to producers is very clear. They must ensure sales and Opec members, in particular, want to fulfil agreed quotas especially in a situation where bodly set price differentials weigh unfavourabe against their crude varieties. There is every reason why producers should continue with such arrangements.

They have attractions for consuming countries also. A recent analysis by Petroleum Intelligence Weekly pointed to how Brazil was trying to limit the strain on its balance of payments by reviving countertrade deals which guarantee exports of its own goods.

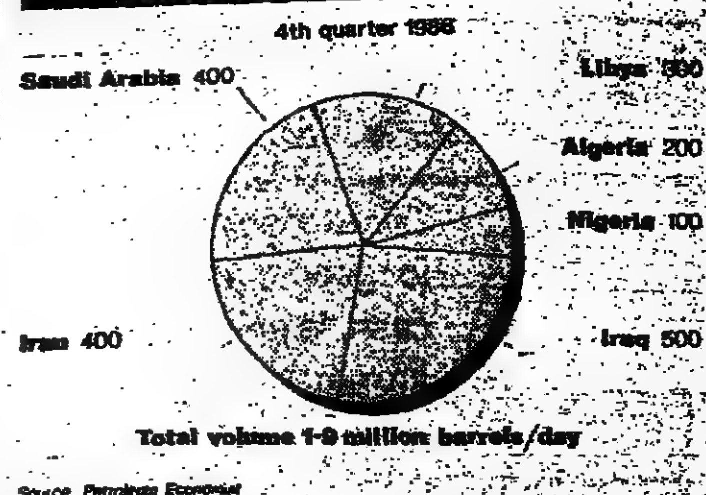
India and other Asian countries are reported to be seeking to do the same for their farm producer. In a firmer market countertrade in oil once again does not look like one-way traffic.

Richard Johns

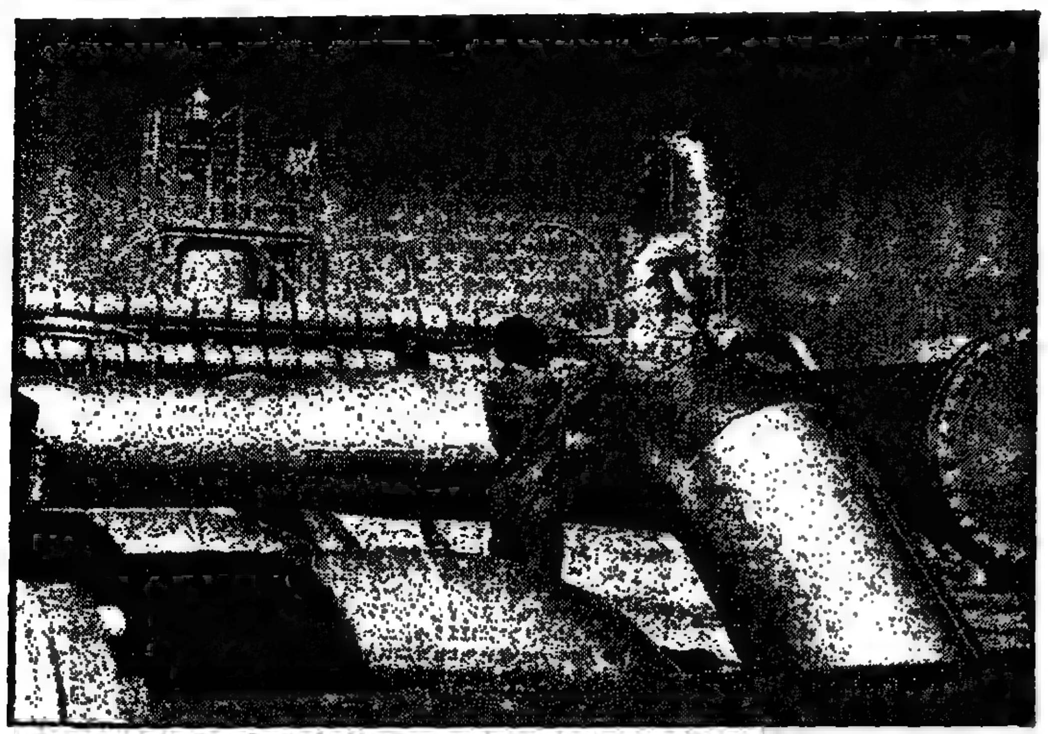
OPEC oil disposals



Main OPEC countertraders



Source: Petroleum Economist



Oil production in Libya: for the last three years the country has paid for large purchases of Soviet weapons by supplying oil which has subsequently been sold on the open market

Oil for arms: Iraqi tanks advancing on Iranian positions. Iraq is the leading oil countertrader at about 500,000 barrels a day, followed by Iran and Saudi Arabia with about 400,000 b/d. Oil remains the most convertible commodity in world trade, after gold and precious metals

Nigeria's countertrade era has left the nation with an awkward legacy. It is unlikely to resume oil-for-goods swaps on a major scale.

Strategy beset by problems

NOT SO long ago, countertrade was seen by the Nigerian Government as a vital part of a strategy designed to overcome the country's crippling foreign exchange constraints, brought on by a slump in oil receipts and mounting external debt commitments.

Today, the picture has changed markedly. Hopes are pinned instead on the potential benefits of Nigeria's radical economic recovery programme, backed by the International Monetary Fund (IMF) and the World Bank, which has paved the way to the rescheduling of the country's estimated $22bn total external debt.

This, in turn, opened up the prospect of resumed export credit cover, suspended by the main trading partners in 1984 when arrears in trade payments had reached several billion dollars.

These developments, together with a generally unhappy experience with past countertrade deals and a determination to keep to Opec's pricing and quota policies, make it unlikely that Nigeria will resume oil-for-goods swaps on a major scale.

Nigeria's countertrade story goes back to 1984, when the military government of General Muhammadu Buhari embarked on a series of agreements in principle with companies in Austria, France, Brazil and Italy. Between September of that year and July 1985 the government negotiated deals to exchange up to 86m barrels of crude oil, then worth $24 per barrel, for a wide range of goods.

The three largest deals involved Cotia, the largest private trading firm in Brazil; Scoa, the Paris-based international trading house; and Austria's Voest-Alpine, while other arrangements under consideration included companies in Germany, Italy, Japan, the US and Canada.

Britain, traditionally Nigeria's largest trading partner, was at a severe disadvantage, partly because its own North Sea oil production competes with Nigeria's Bonny Light crude, and partly because the Government did not encourage countertrade deals.

The total potential value of the transactions was $2.04bn, including raw materials, chemicals, pharmaceutical products, agricultural equipment, kits for motor assembly plants, basic foods and spare parts.

The strategy soon ran into difficulties, however. Deals that had been agreed in principle had to be delayed or suspended when a fall in autumn of 1985 of Nigerian crude oil prices forced the renegotiation of price provisions in the agreements. Only one deal—with Cotia—became fully operational.

Other deals were subject to increasing controversy over the pricing and quality of the goods under offer, accompanied by speculation about the level of corruption involved in some the proposed contracts.

When General Ibrahim Babangida ousted President Buhari in a bloodless coup in August 1985, one of his first acts was to order a review of the countertrade system. A committee of businessmen and academics appointed by the new government to investigate alleged abuses produced a critical report, saying that many of the deals lacked adequate government supervision. It suggested that some of the goods imported had been overpriced.

Although the committee did not rule out countertrade as what it called "a short-term measure for national economic revival and sustained development", it made clear that the policy would have to be conducted on a more selective basis.

What this has meant in practice is that certain capital projects—notably the Ajaokuta steel plant—will be financed at least in part, by countertrade.

In the case of Ajaokuta, the French companies Dumez and Fougerolle will benefit from oil liftings by Elf Nigeria worth some $460m, while Germany's Bilfinger and Berger are also getting the proceeds of oil shares.

The arrangements Nigerian officials envisage for the funding of capital projects, however, are not so much oil-for-goods swaps, but a commitment to put aside the proceeds of an agreed amount of oil sales in an escrow account. Thus government equity in the proposed multi-billion dollar liquefied natural gas plant will be financed in this manner.

"If we ever go back to countertrade," says Nigeria's oil minister, Alhaji Rilwanu Lukman, "this is probably the way we will do it."

"If you sell oil in a straightforward countertrade," the minister explained in an interview with the Financial Times, earlier this year, "you may give a discount, or the price of the goods may be inflated. This way, you say it is a contract you are financing with oil, and you negotiate the commercial contract in the normal way.

"We are not paying with oil, we are paying with dollars. If you give somebody oil who doesn't need it, he'll probably go and flog it on the spot market and depress your prices."

No official figure is available on the amount of oil Nigeria might set aside for such financing, but some estimates put it at between 160,000 and 180,000 barrels per day.

Whether such an allocation could be sustained in an uncertain oil market remains to be seen. The country's foreign exchange budget—of which over 90 per cent comes from oil exports—is based on a price of $13 per barrel.

In the past, Nigeria effectively ignored production quotas set by Opec, and countertrade was seen as one way to boost production. Today, Nigeria appears committed to keeping to its 1.238m barrels per day quota, and supports the pricing policy of Opec—of which Alhaji Lukman is currently president.

Meanwhile, the Government has been left with what is turning out to be an awkward legacy of the countertrade era: approximately $500m held in escrow accounts, mainly the proceeds of the Cotia deal, and Austria Voest Alpine Intertrading.

It was due to Cotia that Brazil emerged as Nigeria's leading trading partner in 1985, with exports worth $900m, while Nigerian oil sales to Brazil reached $1.3bn.

Under the arrangement, Brazil's state-owned oil company, Petrobas, increased its liftings of Nigerian crude by 40,000 bpd, and Cotia contracted to provide $5000m in food, raw materials, spares and completely knocked down (CFK) vehicle assembly kits from Volkswagen Brazil to VW assembly plant in Nigeria.

The deal lapsed amidst mutual recriminations shortly after President Babangida took power, and there is little sign that it will be revived. In the meantime, about $350m, representing the proceeds of Nigerian oil sales to Brazil, remains in an escrow account in New York. Reports that Nigeria has negotiated the withdrawal of the funds less a 10 per cent "release fee" payable to Cotia, have not been confirmed.

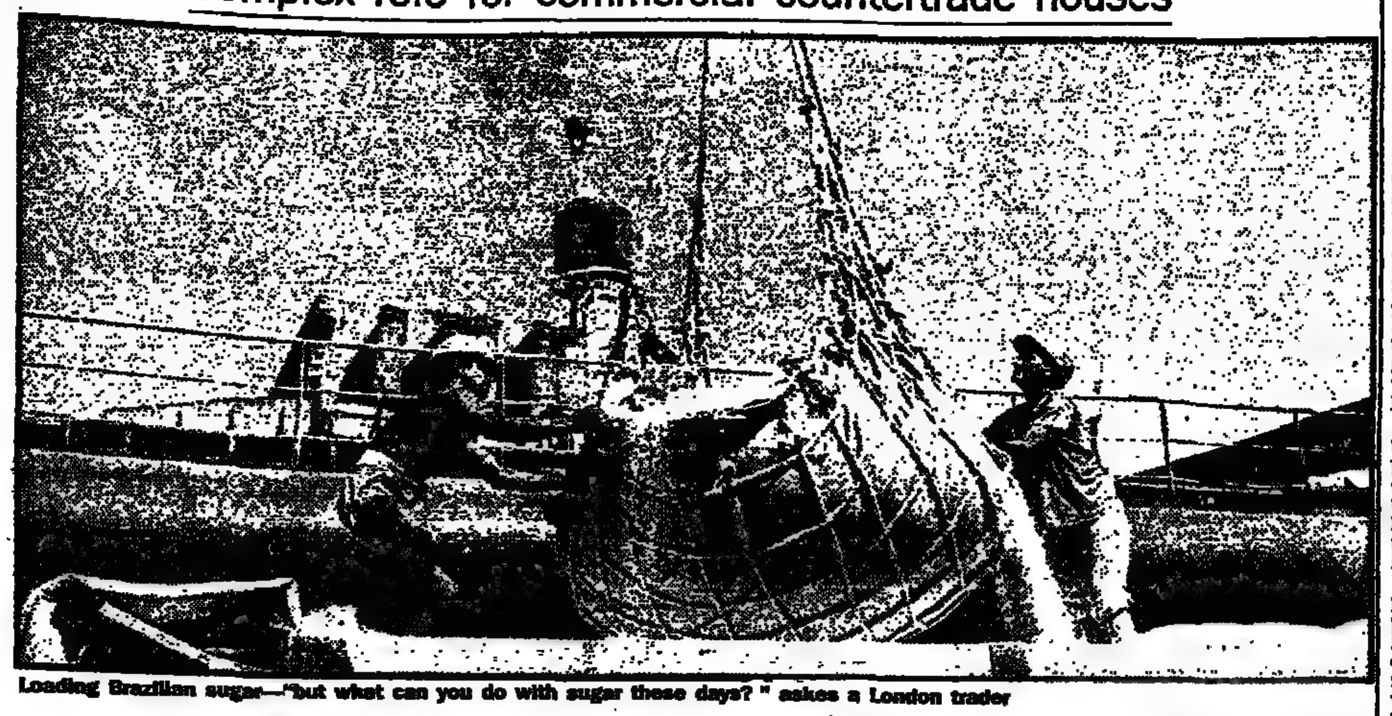
Efforts by Nigeria to draw on the money to fund the country's weekly auction of foreign currency have apparently met with Brazil's insistence that it remains tied to the purchase of Brazilian goods, and so far the deadlock has not been broken.

Nigeria's traditional leading partners — UK, France, West Germany, the US, Japan and Italy — continue to keep a close eye on countertrade prospects, but there is little indication that the Nigerian authorities will revive the strategy of 1984-85.

Michael Holman, Africa Editor

Cargo from Brazil unloaded at Lagos: Brazil emerged as Nigeria's leading trading partner in 1985, with exports worth $900m, while Nigeria's oil sales to Brazil reached $1.3bn

Complex role for commercial countertrade houses



Loading Brazilian sugar—"but what can you do with sugar these days?" askes a London trader

A wide margin of risk

IT IS often said in trading circles that countertrade is akin to sex in that both generate high talk-to-action ratio. Philipp Brothers' director, Mr Peter Brent reflects that if this is, indeed, the case, then society today must be riddled with sexual frustration as he estimates only 5 to 10 per cent of mooted countertrade deals are ever consummated.

Just how much countertrade business private trading houses and their specialist countertrade subsidiaries organise or transact is difficult to estimate—they are notoriosly shy (with due reason) about discussing the value or nature of individual deals.

But one fact seems clear; the practice of commercial countertrade (ie, excluding government-to-government business) has enjoyed nothing like the boom some predicted two or three years ago and which others even suggested was taking place at that time.

"It is difficult to conclude—and it take time," says Mr Brian Fitzpatrick, a director of Merban, the trade finance subsidiary of Continental Grain, which has the expertise and the financial backing to construct substantial countertade deals.

But it is not just the complexity of the deals or the time they take to assemble—after all, negotiating for example, a major forfaiting deal is hardly simple—which constrains the amount of commercial countertrade transacted.

With the exception of crude oil there have been few instances of leading raw material producers being willing to commit substantial volumes of, say, copper or cocoa to countertrade deals, simply because they can sell off such commodities for cash.

Moreover, countertrading them in additional quantities against imports could well disrupt their existing markets—unless strict precautions are observed. And these in themselves make it much more difficult, perhaps even impossible for traders to make a deal perform.

Morocco, for example, is willing to countertrade phosphate against imports, but only if the trading company handling the deal sells it on to a new customer at a price which does not undercut the country's current sales price for the commodity. The principle of incrementality is fine, but in practice it severely limits the ability of trading companies to perform.

"Just how many new phosphate customers are there in the world?" asks one London-based countertrader.

Another problem which has tended to limit the extent to which trading companies are able to participate in commodity-for-commodity countertrade deals is the absence of opportunities to engineer a profitable margin in today's currently depressed market conditions—and, particularly, a margin which reflects the risk of taking title to substantial quanties of raw materials.

"What can you do with sugar these days?" asks a London trader.

If the bulk raw materials generate problems for even the most experienced countertraders, these can be dwarfed by those associated with handling large volumes of manufactured goods—principally because any country in the Third World or the Eastern bloc which can get cash for such exports, will do so.

Thus, those available for countertrade purposes tend to be low quality, difficult-to-market items which have not previously emerged as a traditional export.

No trading company can be an expert in all or even a substantial number of the manufactures, from folding chairs and neckties to nails and earth-moving equipment, that may emerge in countertrade transactions.

While many are happy to try to assist on a "best endeavours" basis, provided it involves no contractual commitments, some shy away altogether.

While negotiations are often intricate and time consuming, profit margins are elusive in depressed market conditions.

A western exporter, however, stands a reasonable chance of finding a trading company willing to handle awkward manufactures in Vienna.

The expertise of Viennese traders in all forms of countertraded goods has, of course, emerged from its geographical proximity to traditionally cash-short East European countries. However, these days such traders as AWT are mobilising that expertise worldwide in deals which have no connections with Comecon countries.

Despite all the problems associated with both bulk commodities and manufacturers (which in the latter case can even result in traders falling foul of intricate import restrictions for processed and semi-processed goods) substantial business is carried out, though not on a scale which justifies using the word "boom."

Western exporters arrive in the offices of trading companies at various times during the negotiation and implementation of export contracts, but the wise ones turn up before they have submitted bids.

Knowing that they will be faced with countertrade demands, they discuss with trading houses, the likely cost of handling the commodities they may be asked to take. They discuss the mechanism of the likely trade flow and the contractual linkage. This allows them to finally estimate how much they should consequently seek to build into their sales price to make the deal worthwhile.

Having done this, some exporters take the initiative further still; either operating directly in harness with a countertrader or independently they may, themselves, request goods which they want to purchase, prior to making their own sales pitch.

This is sometimes referred to as revenge countertrade—or, in the language of physical contact sport, "getting your retaliation in first."

The losers tend to be those Western exporters who, with only days or weeks left before a penalty-triggering deadline to lift product expires, are faced with goods, commodities or perhaps even services, such as sea freight, which they must take up or pay a penalty for not doing so.

This occurs for various reasons: the less exerienced exporter may simply not have fully understood its obligations; on the other hand, there may have been delays in the importing country assembling the agreed products or at least products of the quality the exporter is prepared to take.

In these cases the trading houses will help if it can, but the commissions involved will most likely reflect the exporter's dire position.

Many trading houses prefer to take on commodities and goods generated by countertrade-linked exorts on a back-to-back basis, where the risk is limited by the purchaser being guaranteed. Nevertheless, for the trading house needing to run an open position in a commodity to allow a deal to perform, futures markets in a wide range of commodities, such as grains, coffee and metals, can be used to hedge exposure and the subsidiaries of major commodity houses can, in any case, merge their positions with those of their parents.

Trading companies involved in countertrade tend to be so in response to the specific requirements of either their clients or parent company, but in some cases they enter into umbrella arrangements, such as those negotiated between a group of companies, including MGS, Mitsubishi and Prudential Bache, and the Government of Pakistan and Austria's Voest Alpine Intertrading's (VAIT's) oil-based deals with Nigeria and Iran.

The Pakistan arrangement, agreed last year, calls for countertrade amounting to $100m equally divided between exports and imports, a 12-month period.

The level of business conducted is unclear. Goods are coming out of the country, but there have been substantial delays with Pakistan imports due to slow currency allocations.

VAIT's problems, as with those at its sister state-owned Merx trading house, stemmed from speculation in the oil markets, rather than from the structure of the deals thmselves.

That said, the company had difficulty booking products to go into, for example, Iran due to the high commissions it had to charge, partly to bridge the differential between the oil purchase price and its free market level.

What is the outlook for trading companies involved in countertrade?

Classical parallel business and, for instance, escrow account operations will always be there, unless developing and Eastern bloc countries generate vast levels of export goods which they are able to sell on a cash or conventional credit basis in the industrialised world.

However, some traders see their activities expanding in two other key directions. One is offset and the other goods-linked sovereign debt repayments.

Offset requires an exporter to transfer technology, organise productive capacity or assist with industrial development in a wide range of contexts to a stated percentage of the value of the export contract.

Given the Third World's drive to industrialise, offset demands are occurring with greater frequency for companies who have no previous experience with the technique—unlike the major aircraft and aerospace manufacturers who, in many cases, regard offset proposals as a major part of their sales technique. Boeing's 130 per cent offset offer was instrumental in helping gain the company its AWACs early warning system order from the Royal Air Force.

In cases where exporters are not familiar with offset demands from importers, let alone administering an offsets programme, some traders believe they may have a role to play. Philipp Brothers, for example, is currently considering setting up an offsets unit.

In the case of countertrading debt, traders may be able to carve a niche for themselves operating alongside major creditor banks which do not possess their own trading companies. Repayment of some debts have been made by, for example, Iraq in oil, but the practice has not emerged on a grand scale.

Alan Spence

The writer is editor of International Trade Finance, a bi-monthly newsletter, published by Financial Times Business Information.

Eastern Bloc countries

Product list shortened

COUNTERTRADE is a fundamental feature of East-West business relations, accounting perhaps for up to 30 per cent of business undertaken. Apart from conserving scarce foreign exchange, countertrade is also harnessed as a means of enlisting Western help to market new goods and offload products which would not normally find a home in the West.

During the acutest period of the Eastern Bloc debt crisis, particularly in Poland, in the early 1980s, it was anticipated that countertrade would be a key means by which these countries woud seek to finance imports.

Some rise did, indeed, take place, but it was not massive, partly because, as with developing world raw material producers, Eastern Bloc countries tend not to introduce goods and services into countertrade transactions if they are able to gain hard currency for them elsewhere, hence the multiplicity of stories about the quality of the goods that Western exporters are asked to take.

In the case of the Soviet Union there are some indications that this policy may change in the next few years, though it may not herald a similar trend elsewhere.

As part of the overhaul of foreign trade procedures fostered by the Soviet leader, Mr Mikhail Gorbachev, the list of generally unavailable products and commodities for countertrade may be much shorter. Some say it may only include such easy currency earners as gold, gas and oil—that would be a major improvement on the days when, in addition to trivia, such as toys, Moscow mainly offered machinery and some consumer goods.

When doing business with Eastern Bloc countries, Western exporters and their trading consultants are always wary about handling goods which would not normally be sold on a countertrade basis.

According to one trader, Romania, for example is notorious for whipping away products from a virtually (and lengthily) negotiated countertrade deal if it became apparent that the products can be sold for cash.

The levels of countertrade as a percentage of the value of the Western export contract varies substantially between Eastern Bloc countries. According to one leading trader, Romania and the German Democratic Republic are currently asking for around 100 per cent. Czechoslovakia and Hungary between 30 and 50 per cent, Bulgaria 40 to 80 per cent and Poland either 100 per cent or nothing at all.

Traditionally, requested levels in the Soviet Union have been generally low, but the apparent willingness to broaden the range of goods available is emerging hand-in-hand with much higher countertrade requests. These can be as high as 100 per cent or higher still if the import leg of the deal is being financed on the basis of credit.

Another traditional characteristic of East-West countertrade has been its concentration on low priority, perhaps off-plan imports, where a foreign trading organisation (FTO) is given permission to import, say, a luxury item such as cocoa butter, provided it does not result in any foreign exchange outflow.

However, according to a Finnish banker who specialises in Eastern Bloc countertrade, requests are now emerging for some countertrade to be linked to the importation of higher priority items which would previously have been paid for in cash.

For exporters seeking to sell to Eastern Europe, many traders and bankers advise that bid prices should reflect a substantial part of the costs of any countertrade deal with which they may be confronted. This is because the Eastern Bloc FTO handling the arrangement in Warsaw or Prague will assume this to be the case and thus the chance of pushing for an increase to allow for the countertrade costs when they emerge are limited.

Exporters must also give careful consideration to the level of exposure they intend to give to a trading house, if one is being enlisted to lift its countertraded product.

Trading companies, while essential in some deals, are nevertheless not always greeted with enthusiasm in Eastern Europe. Foreign trade organisations like to do business directly with Western manufacturers and some allege that trading houses engineer inflated prices—which in some cases is probably true given their experience of the costs of countertrade.

Another problem for Western exporters is the problem of dealing across FTOs. In Romania, for example, it has been traditionally difficult for an exporter to sell product to one FTO and purchase countertraded product from another—a point of some concern given that Bucharest tends to request higher levels of countertrade than most other Eastern European countries. Bureaucratic procedures and, perhaps even jealousies are to blame.

Many manufacturers enter into blind countertrade arrangements in their eagerness to gain export orders.

"Some don't even see a list of the specific goods they will be asked to choose products from," says one leading trader. This prodces inevitable problems, especially as some traders and bankers believe countertrading conditions are becoming increasingly difficult.

Vienna, where a high proportion of the East-West countertrade deals are arranged

Though the Soviet Union may be broadening the list of products available for countertrade, this trend is not generally typical of Eastern Bloc countries.

Bankers and traders identify a number of problems. The time periods given to Western exporters to fulfill arrangements are becoming shorter and penalties for not taking up product in the agreed time period are rising.

In Romania, for example, penalties average around 25 per cent of the value of the contract, but can be much higher. Additionally, it can be more difficult to negotiate release clauses into a contract in the event of product being unavailable for purchase, while geographical restrictions on the disposal of goods are in some cases much tighter.

Given the quality and quantity limitations of the goods which are currently and potentially on offer for countertrade, allied with the Eastern Bloc's currency shortages and its drive to modernise industry and agriculture, some experts believe the nature of countertrade with Eastern Europe could change substantially.

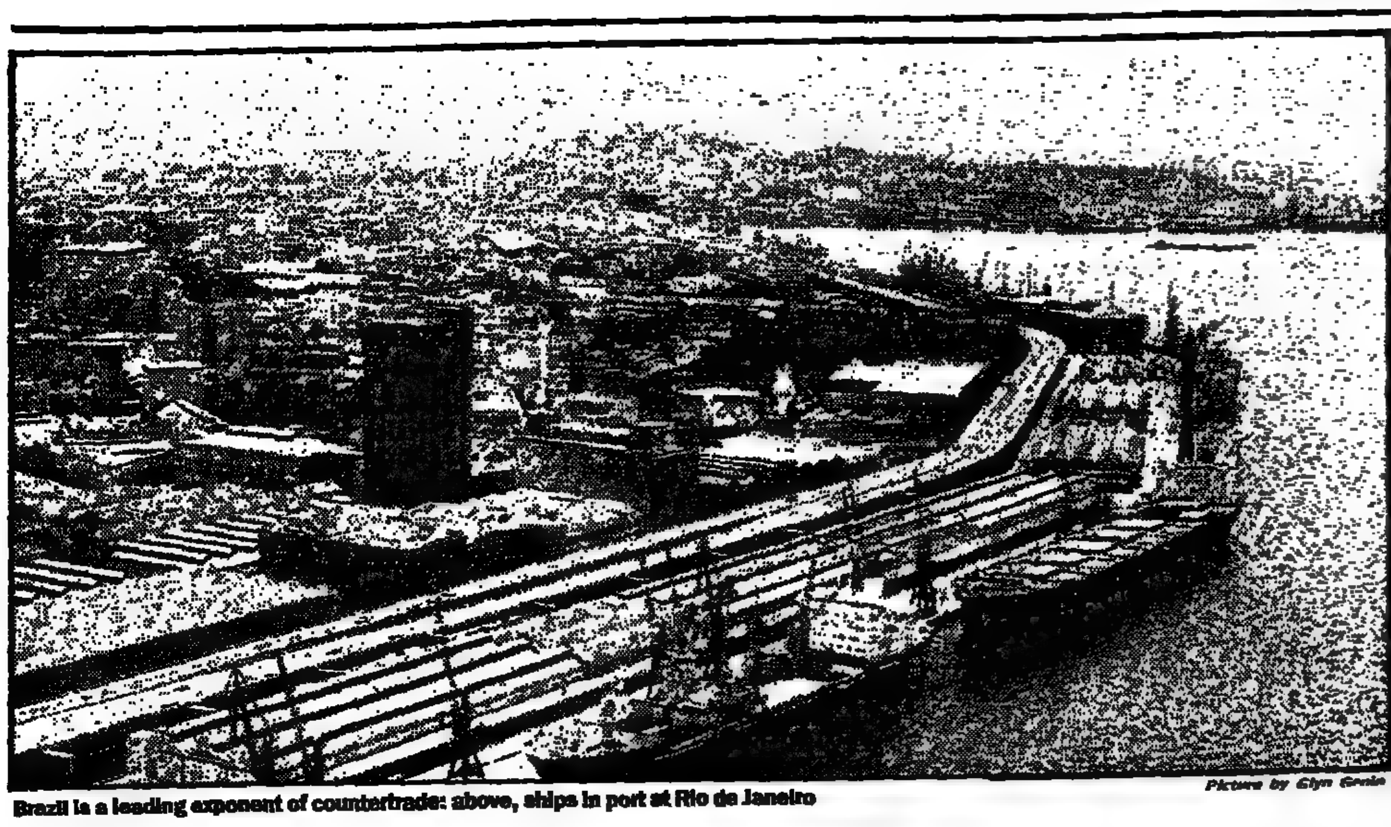
Classical parallel countertrade transactions could become obscured by major buyback or offset-based arrangements encouraged by changes in joint venture law. The Hungarian Government is, for example, cutting back substantially on the number of licences it is prepared to grant for goods-based countertrade. Instead, the authorities wish to see companies increasingly participate in joint ventures, partly geared to the Western partner agreeing to buy-back product generated by the venture.

In Romania, one company which regularly trades with the country has contemplated setting up an aluminium sheet production facility to help generate additional product the company could lift against its exports to Bucharest.

In the Soviet Union it is still very early days for Mr Gorbachev's new joint venture law, but it contains a number of features designed to be attractive to potential Western partners. These include the repatriation of distributed profits and safeguards against the confiscation of a joint venture's property by administrative order.

When the law is fully digested by Western exporters, a number of whom are already negotiating with Moscow, it could well be that joint ventures will become a major focal point of reciprocal trade with the Soviet Union.

Alan Spence



Brazil is a leading exponent of countertrade: above, ships in port at Rio de Janeiro

Picture by Glyn Genin

Latin American deals

More talk than action

COUNTERTRADE in Latin America has ceased to be such a vogue word. As a means of promoting trade it is still an alternative but there have been no large-scale recent deals and even the smaller ones are proving both complex and unattractive to put together.

At the onset of the debt crisis in 1982 when any means of boosting trade either to save or generate foreign exchange was considered viable, countertrade schemes were much discussed and promoted. But with the test of time there has been more talk than action.

In part, this is a reflection of the fact that Latin America's main trading partners are the industrialised countries of the world. The latter have never even fully endorsed the principal of countertrade and have alway preferred, where possible, to channel trade through conventional channels. On the whole countertrade has occurred where the trading partners are either intra-regional, in the Socialist Bloc or among other developing countries.

The other major constraint has been the state of the domestic economies throughout Latin America. Last year was the first since the onset of debt crisis that Latin American economies recorded a modest growth—of 1.2 per cent. This was largely the result of high growth in Brazil. However, in global terms, Latin American economies are still below their GDP levels of the late 1970s.

The overall trade picture is even more gloomy. Last year exports dropped in value by 15 per cent (more than double the 1985 fall) and 2.5 per cent in volume. These figures reflect the sharp drop in earnings of the oil and gas exporting countries (Bolivia, Ecuador, Mexico, Peru, Trinidad and Venezuela) but also a general negative trend in the main commodities exported by the region, coffee being the only notable exception.

Meanwhile, for the third year running imports were sluggish, despite the sudden 42 per cent drop in 1982-83. The value of imports was up only 2.4 per cent with volume up 7 per cent. Interestingly, import growth was strongest in the two economies seeking solutions to their debt problems outside the context of International Fund Monitoring: Brazil and Peru.

In Brazil, imports grew 26 per cent and in Peru 31 per cent. Both countries are among the leading exponents of countertrade but officials in both Lima and Brasilia say that countertrade played a negligible role in this increase.

The rise in Brazilian and Peruvian imports represented strong domestic economic growth allied to increased disposable income, leading to both purchases of capital goods and foodstuffs—but mainly from the industrialised countries.

Despite Brazil's previous enthusiasm for countertrade, especially in energy and energy-related purchases, it was noteworthy that in last July's agreement with Argentina to work towards closer economic integration countertrade was not formally mentioned. The protocols of the agreement talked of complementing capital goods production and foodstuffs supplies (establishing Brazil as a preferential buyer of Argentine wheat).

However, the agreement envisages payment essentially through a compensatory system of mutually agreed credit. Uruguay also subsequently became a signatory to the agreement and the three governments would like to see this as the modest makings of closer "common market" integration. The chosen route is seen through conventional trading mechanisms.

Brazilian interest in countertrade arose in the light of its energy needs and the oil price rises of the late 1970s, Petrobras, the Brazilian state oil concern, consciously sought to strike arrangements with suppliers such as Nigeria, Angola, Iran, Iraq and the Soviet Union.

This arrangement was on the basis of Brazil being able to supply from its widely diversified economy an attractive range of raw materials and manufactured goods suitable for these markets. For instance, in return for Nigerian crude, Brazil has been supplying knocked-down assembly units of Volkswagen cars, salt, steel, sugar and synthetic fibres. In the case of Iraq, oil has been acquired by the supply of both civilian and military goods.

These deals have either been arranged through Petrobras subsidiaries or with the aid of independent trading companies such as Cotia Comercio Exportacao e Importacao.

Although Petrobas still regards countertrade as a key element in its strategy of foreign crude purchases, circumstances have changed. Last year the Nigerian Government, in a crackdown on corruption, reviewed all countertrade arrangements.

More importantly, the collapse of crude prices in 1986 raised serious questions about the value of such deals and the mechanics of their operation. All the oil-based countertrade arrangements were initiated when crude prices were averaging $27-32 per barrel: since then, prices have halved and show no sign of resuming their former levels. At the same time Brazilian oil discoveries offshore have gone a long way to holding out the promise of near self-sufficiency.

Peru has not an entirely happy experience with countertrade. For 16 years it has been locked into paying for Soviet arms, with arrangements that allow 200 Soviet trawlers to fish in Peruvian waters and via the sales of fishmeal.

Last year debt service on some $1.2bn owed to the Socialist bloc was cutback and attempts were made to make these countries receive more in kind (from chickens to toilet paper and textiles). However, this move is believed to have met with limited success.

Argentina and Peru have begun a limited countertrade, with Peru receiving grains in return for selling some military spares. Argentina itself has generally eschewed countertrade on any scale; but in the past 18 months it has begun to boost its commercial ties with Cuba on this basis, building tourism facilities in Cuba in part return for cheap access to Cuban tourism for Argentines.

Mexico, the other major Latin American economy, has always regarded countertrade as marginal, its main market being North America.

Almost on a concessionary basis, Mexico began last year accepting payment for crude delivered to Nicaragua in some foodstuffs; but this arrangement has not been a success in cutting Nicaraguan debt arrears.

In Mexico, there has been some confusion over deals sometimes considered as countertrade. For instance, foreign exchange restrictions limited manufacturers to import goods for a similar value to their exports. This led to some manufacturers, especially in the motor industry, to buy up Mexican produce, such as honey, sell it and then claim the right to import their full needs.

As a rule in Latin America, governments have been reluctant to countenance countertrade in traditional exports. Colombia, for instance, has firm rules in this respect, forbidding coffee to be sold in this way—a policy vindicated by last year's coffee price boom.

Robert Graham

Export finance

Dilemma for the banks

THE GROWTH of international countertrade has posed a dilemma for commercial banks which aim to play an active role in export finance.

Of its very nature, countertrade is alien to the business of banking which is supposed to revolve around the lending of money rather than the trading of goods. Bankers approach their business with different criteria. Their main concern is in being repaid; a countertrader has to worry about price, delivery and his ability to distribute products that come his way.

Yet countertrade has developed in many markets around the world to the point where it cannot be ignored by financiers. There are few large projects nowadays which do not involve countertrade. A bank which aims to provide a service in export finance has to offer countertrade expertise as part of the package.

Following a change in US legislation in 1982, several major money centre banks set up countertrade operations. Yet, partly because many mistakenly chose to concentrate on Latin American business, these operations have generally been unsuccessful in paying their way, and several are being quietly wound down.

According to Mr Gilbert Nockles, who runs the extensive countertrade operation of Midland Bank in the UK, countertrade is not mainstream banking business. One problem is that banks are reluctant to buy and sell products on their own account. Another is that the business is both highly specialist and labour intensive compared with traditional wholesale banking.

Another problem is that the commissions are generally low for the work involved. In Indonesia, one of the most sophisticated countertrade markets of the Far East, they may run to little more than 1 per cent.

Of all the UK clearing Banks, Midland is generally regarded as being the most active in countertrade business. It maintains its own countertrade subsidiary in Vienna, Midland International Trade Services which is traditionally an important centre for countertrade business because of its position in East-West commercial relations.

At the other end of the scale is Barclays, whose service is basically an advisory one that is seen as complementing its efforts in traditional export finance. Barclays does not get involved directly in countertrade dealing, but it does offer advice, for example in bringing potential business partners together, in drafting legal documents and arranging the escrow accounts that are a necessary part of some types of countertrade transaction.

Though some banks, such as Midland, claim to make money out of their countertrade operations, the Barclays approach is more that of using countertrade as a kind of loss leader.

The countertrade world is already well supplied with specialist firms, and in any case it is an intricate and delicate business. Mr Alan Dearden, who runs Barclays' operation says that out of 25 deals on which his bank is approached only one may actually come to fruition. Also, countertrade offers relatively little in the way of traditional lending opportunities.

Banks which aim to provide a service in export finance now have to offer countertrade expertise as part of the package

Export credit agencies, such as Britain's Export Credits Guarantee Department, frown on countertrade and usually decline to guarantee a countertrade deal. Exceptions may be made if it takes the form of a parallel transaction in which the counterpurchase from the importing country is not contractually linked to the original export sale or if there is some form of financial guarantee from the central bank of the importing country. Countertrade deals were specifically excluded from the recent export credit protocol signed earlier this year by the ECGD and the Soviet Union.

Similarly merchant banks are not particularly active in countertrade, although both Samuel Montagu and Hill Samuel maintain countertrade operations. Probably the most active merchant bank in this area is Kleinwort Benson, which has a 25 per cent stake in Centrobank, the major Viennese countertrading house. (The other shareholders are Banco di Sicilia, Poland's Bank Handlowy and Austria's Genossenschaftliche Zentralbank.)

As with Midland, Kleinwort claims that its countertrade operations are profitable. But Mr John Burge, who runs them, also admits that it is a difficult business to be involved in.

"You've got to be lucky, skilful and determined," he says.

Peter Montagnon

Coal deals with China

CHINA, which overtook the US and the USSR as the world's largest coal producer in 1985, is now expected to offer considerable amounts of coal for countertrading.

China's coal production last year amounted to 870m tonnes, of which 9 per cent was exported. By 1990, the target is 1bn tonnes with 20 per cent exported. Estimated coal reserves in China are around 800bn tonnes of which between 100bn and 200bn tonnes can be expected to be mined.

Pictured, right, are miners coming off shift at Mei Yu Kon Colliery, Datong, in the northern Province of Shanxi, where a quarter of the nation's coal reserves are located.

Production at Shanxi is likely to reach 230m tonnes this year, although urgently needed foreign currency is not earned because not enough coal so far reaches the ports, due to lack of infrastructure. *Picture by Hugh Routledge.*

Conference to appraise countertrade

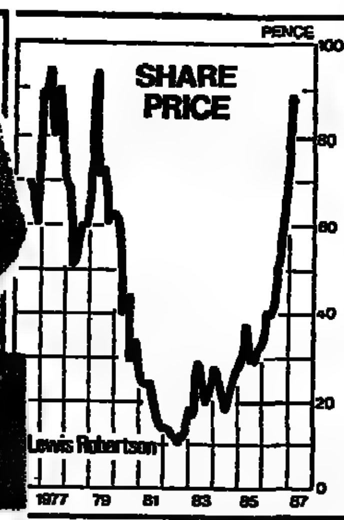
A LONDON conference in June aims to give an intensive appraisal of current trends and techniques in countertrade and offset deals, specifically designed to meet the needs of corporate financial and commercial management.

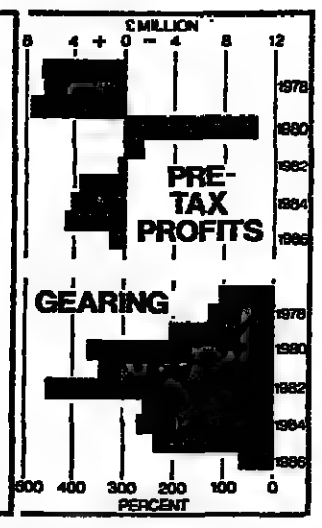
Mr Clive Bateson, managing director of the countertrade division of Atlantic Petroleum, will be chairman of the Countertrade and Offset Conference, presented by Crown Eagle Communications at the Tower Hotel, London, on June 23-24.

Topics to be covered by a team of ten speakers include the structuring of countertrade deals, legal implications, risk management, finance and the banker's role, managing an offset programme, countertrade and the oil and commodities markets.

Terry Povey looks at Borthwicks' long road to recovery

'Mango' ready to bear fruit





ANY DAY now, Borthwicks' top secret "Operation Mango" will produce fruit in the shape of low-fat, additive free, easy-to-carve joints of pure meat brought together by a process which is being kept carefully under wraps.

This new product is potentially a major breakthrough for Borthwicks. If successful it would mark the end of the group's long recovery from near collapse and at the same time confirm its switch from being a meat trader to a food product manufacturer.

Recent years have seen a total change of management at both board and operating levels and many asset disposals. Mr Lewis Robertson, the company doctor who became chairman in 1985, and Mr Dennis Carey, who took up the rationalising cudgel as chief executive back in 1981, believe the group is now in good enough shape to take a few risks and launch new products.

Just under seven years ago, serious trading errors in the face of collapsing American beef prices almost broke Thomas Borthwick's back and the 115 year old international meat trading and processing group fell deeply into the red. Early attempts to clean up the mess foundered because of the company's highly-geared rump.

Like many of Britain's overseas traders, Borthwicks began as a quick-on-its-feet family business built up at the height of empire in the late 19th century. By the turn of this decade, however, it had locked itself into a worldwide spread of wholely and partly-owned assets with heavy working capital demands, high currency risk and rapidly depreciating values.

Borthwicks owned dozens of abbatoirs and depots in New Zealand, Australia and the UK. In addition it owned New Zealand's leading lamb trading business, the 250-shop Matthews butchers chain in Britain and Boucheries Bernard in France, plus a frozen food unit, a cake ingredients business and various meat product and food flavouring companies.

Borthwicks' banks, 32 in all, became very jumpy when the 1980-81 heavy trading losses were announced. They realised that the group had become habituated to high borrowings. In January 1981, Barclays Bank and the Bank of New South Wales led the group's bankers into an £80m lifeboat operation to give Borthwicks a chance to survive.

Mr Carey was head hunted for his rescue role in April 1981. What he found at Priory House, Borthwicks' London headquarters, just across from the Smithfield meat market, was "shocking." "The group was terribly over-manned from top to bottom and financial controls were poor," he recalls. "Even trading was losing money."

From his appointment to the end of 1982, Mr Carey describes himself as a "fire-fighter," rushing between London and the Antipodes, coping with one crisis after another. The core business was left untouched in this period, although the frozen foods operation was sold off as was some property and the first inroads were made into Borthwick's inflated staffing levels. This period also marked the bottom of the New Zealand lamb slump.

In spite of some key personel changes, by September 1984 many of the fundamental problems remained. Net debt at £56m was marginally higher than in the previous year—although this was down on the 1980 peak of over £71m.

To help plan the next stage, management consultants Bain & Co were brought in. The conclusions of this were that Borthwicks should move firmly towards food manufacturing and withdraw from the high risk meat trading side; that the bakery products activities should be built on; new higher-margin meat products identified and developed; and that the group's international products sales operations should be expanded.

The results of Bain's strategic review began to flow through in 1986. In February, the New Zealand operation was sold for NZ$53m (at the time worth £20.5m plus the elimination of associated debt) cutting gearing in half. The wait had been worthwhile—four years earlier Borthwicks had been offered only NZ$7m. Next to go was the French butchers chain (April 1986), followed by Matthews (September 1986) and parts of the Midlands Cattle Products business.

However, over the Australian operations there has been a change of heart. While one Australian abattoir has been closed, another one has been sold and the local head office has been sharply slimmed down and new management installed, Mr Carey is cautiously confident that the three remaining plants are sound.

"Growing links with the group's Japanese and US trading companies exist and the three form an integrated and balanced operation in their own market which is easily worth more than book value and is a springboard into SE Asia," he said.

Borthwicks has also moved in the UK. It has switched its Stock Exchange listing from that of overseas trader to food company, and is now keen to find modest acquisitions to add to its bakery products and food flavouring activities. Four abbatoirs remain (out of 23 abbatoirs and depots pre-1981) and there is a meat cutting and packaging operation supplying Marks and Spencer with joints.

However, it is in the new products areas that Borthwicks is looking to make its mark. Eighteen months ago it was offered exclusive rights on new technology for making boneless joints of meat.

This was the start of Operation Mango. Borthwicks claims that test runs have established that any kind of meat can be combined in the new process and that can be the "supermeat" product sold fresh or frozen, does not fall apart after cooking, is not waterlogged, does not contain large amounts of fat or any additives.

While optimistic that the new product will be a great success—test marketing in the Southampton area is due very soon—Mr Robertson stresses that "today's Borthwicks doesn't stand or fall by one product, however innovative."

City analysts are beginning to warm to Borthwicks and forecasts for 1986-87 are for an almost quadrupling of pre-tax profits to £4.5m. The group's shares have also been recovering from the penny stock status hit in mid-1982.

When Morgan Grenfell brought the company to the market in 1976 the shares were priced at 68p. Until late last year they had not surpassed that level since 1979 — and there are few stocks on the market whose all time high was reached in 1977.

For the time being it is the sharp fall in debt (and therefore interest payments) that is shaping the profit picture — gearing should be less than 40 per cent by September. Tax losses will also provide some shelter for several years and there is even the prospect of a return to a reasonable dividend payout.

"Borthwicks is out of the intensive care ward but the process has taken so long that many may have forgotten about the company altogether," said one analyst. Perhaps the publicity surrounding the new product's launch will reintroduce the group to a wider audience. Then a rating of 11 times forecast earnings could look cheap in a sector where multiples are on average a third higher.

Evered has 24.5% of L and N

Evered Holdings, the industrial conglomerate, yesterday said it controlled 24.5 per cent of the equity of London and Northern, the construction, energy and health care company for which it has launched a £99.1m contested bid.

The holding is just half a percentage point below the level Evered needs to block L and N's plan to split the group into three following a £20m capital injection. The L and N proposal requires the backing of 75 per cent of shareholders.

In the formal offer document for L and N, posted to shareholders over the weekend, Mr Raschid Abdullah, Evered chairman, said L and N's proposals were "hastily conceived and we shall vote against them." Evered's offer for the company closes on April 11.

Meanwhile, Mr Jock Mackenzie, chairman of L and N, has bought 5m shares in this group—representing about 4.5 per cent of the equity — from the Australian company, Winterbottom Holdings. This means the L and N board now holds about 8 per cent of the company's shares.

Ault & Wiborg

A SUBSTANTIAL cut in losses from discountinued activities from £3.1m to £73,000 helped Ault & Wiborg, a chemicals and resins manufacturer 83.5 per cent owned by Sun Chemical of the US, to turn losses of £1.7m into pre-tax profits of £3m in the year to December 31 1986.

A sharp drop in redundancy costs, closure costs and other exceptional items from £1.2m to £251,000

Bolton Textile loss

All divisions of Bolton Textile Mill suffered from difficult trading conditions in the half year ended October 31, 1986. That led to turnover falling from £5.1m to £3.5m and the group running into a loss of £157,000, against a profit of £58,000.

George Ingham

George Ingham and Company, Halifax-based worsted spinner, increased its operating profits from £115,121 to £260,128 in 1986. Turnover—all from the UK—fell from £4.48m to £3.73m. Tax was more than doubled at £26,128 compared with £12,857.

The final dividend is raised from 1p to 1.5p net for an increased total of 2.25p (1.5p). Stated earnings per 10p share were 11.71p (5.11p)

Narborough ahead

Narborough Plantations increased its net pret-ax profits by £30,000 to £109,000 in the six months to December 31 1986. The interim dividend is unchanged at 0.5p net.

Transatlantic heads for London listing

BY NICK BUNKER, INSURANCE CORRESPONDENT

Transatlantic Insurance Holdings, the UK-based financial services offshoot of Liberty Life of South Africa, hopes to obtain a full listing on the Stock Exchange in London in May or June of this year.

Transatlantic has a 25.7 per cent stake in Sun Life, the life assurance group. There has been some market speculation that Transatlantic would mount a takeover bid for Sun Life, following a shareholders' meeting in January when Transatlantic used its stake to veto plans for a corporate restructuring of the group.

Mr Mike Middlemas, the group's managing director, said Transatlantic would probably come to the market via an introduction.

He said this was the obvious route because Transatlantic had no need to raise capital, and because its shares were already widely spread between some 650 institutions and private individuals.

Transatlantic's advisers are J. Henry Schroder Wagg, the merchant bank, and Hoare Govett, the stockbroker. Transatlantic is 49 per cent owned by Liberty Life.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
AMEC	Apr 2	Final 7.0
Abbey Life	Apr 2	Final 4.7
*Armstrong Equipment	Mar 23	Interim 0.75
*Assoc British Ports	Apr 9	Final 6.75
*BAT Industs	Mar 25	Final 7.3
*BICC	Mar 25	Final 7.5
BPCC	Apr 23	Final 8.0
*BSG Intl	Apr 2	Final due
*Babcock Int	Mar 24	Final 4.4
*Bank of Scotland	Apr 22	Final 8.5
*Booker	Mar 23	Final 7.75
Bowater	Apr 15	Final 5.5
*Brent Chems	Mar 23	Final 3.35
*Bridon	Mar 26	Final 3.5
Britannia Arrow	Mar 26	Final 3.0
*British Aerospace	Mar 24	Final 10.0
*Brixton Est	Apr 8	Final 3.35
Burmah Oil	Apr 10	Final 6.25
Burton	Apr 3	Interim 1.5
Cookson	Apr 10	Final 5.35
*Croda Intl	Mar 26	Final 4.0
*Delta	Mar 26	Final 4.15
Evered	Apr 10	Final 2.25
*GRE	Apr 1	Final 19.75
Glaxo	Apr 15	Interim 4.0
Grattan	Mar 21	Final 4.0
Hall (M.)	Apr 16	Final 3.0
Hammerson Propery	Apr 17	Final 7.5
*Hawker Siddeley	Apr 16	Final 10.0
*Hepworth Ceramic	Mar 26	Final 4.2
*Hickson Int	Mar 23	Final 10.0
Horizon Travel	Mar 26	Final 3.52

	Date	Announcement last year
*Ibstock Johnsen	Mar 25	Final 3.3
*Iceland Frozen Foods	Mar 25	Final 4.4
*Kwik Save	Apr 23	Interim 1.5
Laporte	Apr 17	Final 5.65
*Laing (J.)	Apr 2	Final 5.0
*Lucas Inds	Mar 26	Interim 2.6
*Lond Scottish Marine Oil	Mar 31	Final 7.7
Mowlem (J.)	Apr 10	Final 10.0
*NEI	Mar 25	Final 3.6
*Ocean Trans	Mar 25	Final 3.95
*P & O	Mar 24	Final 10.0
*Pentland Inds	Mar 23	Final 1.16
*Prudential	Mar 24	Final 17.0
*RMC	Apr 14	Final 8.4
Reckitt and Colman	Apr 3	Final 10.0
Rio Tinto-Zinc	Apr 9	Final 15.0
*Rugby Portland Cement	Mar 30	Final 2.5
Scottish Heritable	Apr 2	Final 1.6
*Slough Estates	Mar 30	Final 3.3
*Smith and Nephew	Mar 25	Final 2.25
Smith Inds	Apr 9	Interim 1.75
*Spring Ram	Mar 23	Final 1.21
Standard Chartered	Mar 26	Final 20.0
*Steetley	Mar 23	Final 8.0
*Sun Alliance	Apr 1	Final 11.75
Taylor Woodrow	Apr 16	Final 12.25
Travis and Arnold	Apr 21	Final 8.37
*Tricentrol	Mar 25	Final 1.0
*Weir Group	Apr 2	Final 2.125
Wimpey (G.)	Mar 24	Final 2.8
*Woolworth	Mar 24	Final 7.0

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

BOARD MEETINGS

TODAY

Interims: Armstrong Equipment, Bridport-Gundry, Burgess Products, Charlie Browns Car Part Centres, Magnetic Material.

Finals: American Trust, Berkley and Hay Hill Investments, Bilston and Battersea Enamels, Booker, Bradero Properties, Brent Chemicals International Combined Lease Finance, Commercial Bank of the Near East, Davies and Metcalfe, Derwent Valley, Early's of Witney, Forward Technology Industries, Freemans, Hawtal Whiting, Hickson International, Isle of Man Enterprises, Linread, Martin Currie Pacific Trust, Memec, Pentland Industries, Ryan International, Saga Holidays, Spring Ram, Steetley, Summit.

FUTURE DATES

Interims:	
Dowding and Mills	April 9
Druck	April 2
Sanderson Murray and Elder	Mar. 26
Wade Potteries	April 16
Finals:	
Amersham International	June 8
Atlantic Computers	April 8
Bryant (Derek)	Mar. 24
Capari International	Mar. 30
Empire Stores (Bradford)	April 2
F & C Pacific Investment Trust	April 8
Freemans	Mar. 23
Grampian Holdings	
Hawker Siddeley	April 16
Jacks (William)	Mar. 30
Relyon	Mar. 25
Scott and Robertson	April 28
Tricentrol	Mar. 25
Turriff Corporation	Mar. 31

F.T. Share Information

The following securities have been added to the Share Information Service:

Armeno Resources (Section: Canadians).

Avesco (Leisure).

Border Television (Leisure).

Brit. & Commonwealth 7½pc Cnv. Sub. Uns. Ln. 2000 (Trusts, Finance-Land).

Image Storage/Retrieval Systems Inc. (Americans).

Leigh Interests 6pc Conv. Cum. Red. Pref. (Chemicals).

Nationwide Bldg. Soc. 10⅝pc. 15/2/88 (Loans, Building Societies).

Paribas French Inv. Trust (Investment Trusts).

Quarto Group Inc. (Newspapers).

Scottish Inv. Trust Warrants (Investment Trusts).

FINANCIAL TIMES STOCK INDICES

	Mar. 20	Mar. 19	Mar. 18	Mar. 17	Mar. 16	Mar. 13	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Government Secs.	92.04	91.90	91.83	90.89	90.07	89.87	94.51	80.39	127.4	49.18
Fixed Interest	97.89	97.98	97.60	96.42	96.11	95.29	97.98	86.55	150.4	50.53
Ordinary	1598.9	1581.6	1589.5	1586.9	1576.6	1583.9	1613.5	1094.3	1613.5	49.4
Gold Mines	362.4	350.4	344.3	341.4	338.3	340.1	362.4	185.7	734.7	43.5
FT-Act All Share	1006.69	994.65	1001.02	1001.08	994.35	997.23	1006.66	664.42	1006.69	61.92
FT-SE 100	2017.5	1991.0	2006.6	2006.3	1991.8	2000.0	2017.5	1370.1	2017.5	986.9

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

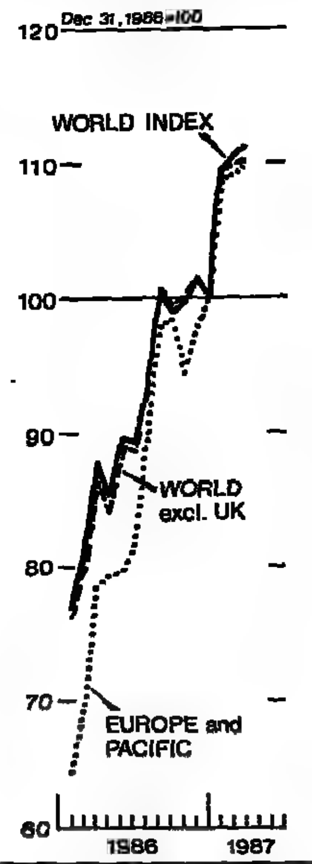
Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	FRIDAY MARCH 20 1987: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	DOLLAR INDEX: 1986/87 High	1986/87 Low	Year ago
Australia (94)	114.55	−0.3	106.01	111.35	3.03	114.94	70.18	85.45
Austria (16)	93.75	+0.0	86.76	89.11	1.74	101.62	70.60	79.30
Belgium (47)	117.37	+0.6	108.61	110.42	4.02	117.37	53.75	74.17
Canada (132)	133.89	+1.1	123.90	126.86	2.20	133.89	86.58	96.78
Denmark (39)	112.43	+0.4	104.05	105.48	2.36	124.10	87.87	100.93
France (121)	116.15	+0.5	107.49	111.23	2.26	116.15	57.72	80.66
West Germany (99)	84.38	+0.5	78.09	80.45	2.25	100.33	74.48	86.64
Hong Kong (45)	109.54	+2.1	101.37	109.72	2.85	114.71	62.87	64.57
Ireland (14)	126.67	−0.6	117.25	122.34	3.47	129.92	62.33	86.44
Italy (76)	101.15	+1.5	93.61	98.51	1.51	108.30	46.07	76.02
Japan (458)	124.89	+0.1	115.58	119.72	0.54	125.51	49.46	65.59
Malaysia (35)	132.61	+1.7	122.72	128.81	2.96	135.38	66.67	72.41
Mexico (14)	137.74	−0.2	127.46	164.45	1.24	140.82	43.00	56.62
Netherland (38)	110.81	+0.8	102.54	104.74	4.23	111.17	74.14	85.11
New Zealand (27)	93.55	+1.3	86.57	89.10	3.04	100.59	47.37	58.51
Norway (25)	125.16	+0.2	115.82	117.55	1.95	125.45	90.02	104.94
Singapore (27)	118.55	+1.9	109.70	117.10	3.19	120.40	55.94	56.68
South Africa (61)	144.22	+2.1	133.46	104.23	3.78	144.22	69.06	108.09
Spain (43)	111.59	−0.2	103.26	108.50	3.63	121.31	45.00	74.19
Sweden (33)	111.48	−0.5	103.17	105.58	2.25	112.03	63.35	80.17
Switzerland (52)	93.26	−1.6	86.30	88.83	1.91	104.06	69.01	78.96
United Kingdom (342)	130.44	+1.2	120.71	120.71	3.48	130.44	75.39	99.98
USA (581)	122.62	+1.2	113.48	122.62	2.92	122.62	85.46	99.32
Europe (945)	111.75	+0.7	103.42	105.26	2.93	111.97	69.36	88.83
Pacific Basin (686)	123.86	+0.1	114.62	118.95	0.71	124.36	51.10	66.20
Euro–Pacific (1631)	119.04	+0.4	110.16	113.46	1.54	119.42	58.45	75.12
North America (713)	123.22	+1.2	114.03	122.87	2.88	123.22	85.61	99.19
World Ex. US (1838)	119.86	+0.4	110.92	113.90	1.59	120.11	60.02	76.23
World Ex. UK (2077)	120.03	+0.7	111.08	116.99	1.97	120.03	69.65	83.93
World Ex. So. Af. (2358)	120.80	+0.7	111.79	117.40	2.11	120.80	69.95	85.15
World Ex. Japan (1961)	119.07	+1.0	110.19	116.11	2.91	119.07	79.87	94.71
The World Index (2419)	120.95	+0.7	111.93	117.31	2.12	120.95	70.14	85.29

Base values: Dec 31, 1986 = 100

Latest indices not available for this edition

FT-ACTUARIES WORLD INDICES



EUROPEAN OPTIONS EXCHANGE

Series		Vol.	Last	Vol.	Last	Vol.	Last	Stock
		May 87		Aug 87		Nov 87		
GOLD C	$400	26	15	—	—	—	—	$405.00
GOLD C	$440	31	2.80	53	9	—	—	"
GOLD P	$370	—	—	—	—	50	4.50	"
GOLD P	$390	—	—	100	7.40	—	—	"
		Mar 87		Jun 87		Sep 87		
SILVER C	$550	134	3	—	—	—	—	$554
£/Fl C	Fl.330	84	0.20	79	6	—	—	Fl.331.09
£/Fl C	Fl.335	28	0.05	56	3.80	—	—	"
£/Fl C	Fl.340	—	—	81	3	—	—	"
£/Fl C	Fl.345	—	—	80	1.10	—	—	"
£/Fl P	Fl.305	—	—	250	1	—	—	"
£/Fl P	Fl.310	—	—	150	1.50	—	—	"
£/Fl P	Fl.330	48	0.05	30	9	—	—	"
		Mar 87		Apr 87		May 87		
$/Fl C	Fl.190	—	—	50	17	—	—	Fl.206.93
$/Fl C	Fl.200	33	7	—	—	30	7.30	"
$/Fl C	Fl.205	498	1.90	180	3.70	—	—	"
$/Fl C	Fl.210	—	—	36	1.20	22	2.40B	"
$/Fl C	Fl.215	—	—	4	0.50	—	—	"
$/Fl P	Fl.200	—	—	—	—	2	0.80	"
$/Fl P	Fl.205	827	0.05	162	1.70A	3	2.70	"
$/Fl P	Fl.210	1367	2.90B	10	4.80B	55	5.30	"
$/Fl P	Fl.215	696	8.10	—	—	—	—	"
$/Fl P	Fl.220	209	13	4	13.50	—	—	"
$/Fl C	Fl.225	340	18	—	—	—	—	"
$/Fl P	Fl.230	255	23	—	—	—	—	"
$/Fl P	Fl.235	156	28.30	—	—	—	—	"
$/Fl P	Fl.245	72	38.40A	—	—	—	—	"
$/Fl P	Fl.250	87	43.40	—	—	—	—	"
$/Fl P	Fl.265	84	58.40	—	—	—	—	"
		Jun 87		Sep 87		Dec 87		
$/FL C	Fl.205	19	5	—	—	50	7.80	Fl.206.93
$/FL C	Fl.210	97	2.50	—	—	10	6	"
$/FL C	Fl.215	60	1	30	2.40	4	4	"
$/FL C	Fl.220	—	—	100	1.40	200	2.50	"
$/FL P	Fl.225	10	0.40	—	—	150	1.50	"
$/FL P	Fl.200	22	1.90	—	—	200	4.70	"
$/FL P	Fl.205	3	3.80A	—	—	85	8	"
		Apr 87		Jul 87		Oct 87		
ABN C	Fl.540	8	1.60	175	8.20	4	13	Fl.503.50
ABN P	Fl.490	194	2.90	9	11	2	19	"
AEGON C	Fl.90	55	1.70	23	3.10	15	4.50	Fl.86.60
AEGON P	Fl.85	49	1.80	5	3.40	19	5.20	"
AHOLD C	Fl.110	46	5.60	118	7.50	5	11	Fl.111.80
AHOLD P	Fl.110	91	2.50	3	6	—	—	"
AKZO C	Fl.150	386	1.80	363	4.20	34	6.80	Fl.143.30
AKZO P	Fl.150	36	8	219	13	40	13.80	"
AMEV C	Fl.65	143	1.80	142	3.50	—	—	Fl.65.80
AMRO C	Fl.85	6	0.60	13	2.30	109	3.70	Fl.79
AMRO P	Fl.80	172	1.50	14	4.70	2	6.70A	"
ELSEVIER C	Fl.250	63	6	22	15	1	20	Fl.251.20
GIST-BROC. C	Fl.45	116	1.20	54	2.50	39	4.10	Fl.44
GIST-BROC. P	Fl.45	20	2.30	3	4	32	4.80	"
HEINEKEN C	Fl.180	124	2.80	71	5.40	164	7	Fl.174.50
HEINEKEN P	Fl.170	42	3.10	62	6	—	—	"
HOOGOVENS C	Fl.40	89	1	31	2.30	17	3.50	Fl.36.30
HOOGOVENS P	Fl.35	200	1.80	57	3	34	4.40	"
KLM C	Fl.45	23	0.60	513	1.90	16	2.80	Fl.42.50
KLM P	Fl.40	60	0.60	523	1.60	24	3	"
NAT. NED C	Fl.75	89	1.90	82	3.50	7	4.80	Fl.73.30
NAT. NED. P	Fl.70	5	0.70	29	2.20	—	—	"
PHILIPS C	Fl.50	799	0.90	686	2.50	74	3.70	Fl.48.90
PHILIPS P	Fl.50	216	2.70	573	3.70	19	4	"
ROYAL DUTCH C	Fl.230	1190	12.20	233	12.80	73	13.50	Fl.241.20
ROYAL DUTCH P	Fl.230	633	1.30	174	6.60	42	9.60	"
UNILEVER C	Fl.560	316	6.80	335	13.90	131	19.90	Fl.555
UNILEVER P	Fl.540	128	4	65	12	1	16	"

TOTAL VOLUME IN CONTRACTS: 33,615

A=Ask B=Bid C=Call P=Put

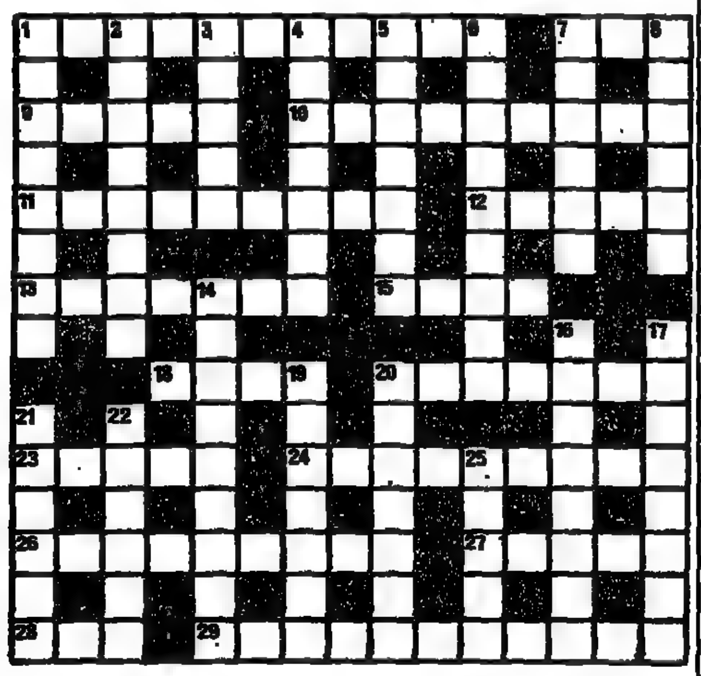
BASE LENDING RATES

	%		%		%
ABN Bank	10	● Charterhouse Bank	10	● Morgan Grenfell	10
Adam & Company	10½	Citibank NA	10	Mat Credit Corp. Ltd.	10½
Allied Arab Bk Ltd	10	Citibank Savings	¶12.45	Nat Bk. of Kuwait	10
Allied Dunbar & Co	10	City Merchants Bank	10	National Girobank	10
Allied Irish Bank	10	Clydesdale Bank	10	Nat Westminster	10
American Exp. Bk	10	Comm. Bk. N. East	10	Northern Bank Ltd	10
Amro Bank	10	Consolidated Cred	10	† Norwich Gen. Trust	10
Henry Ansbacher	10½	Co-operative Bank	*10	PK Finans. Intl (UK)	11½
ANZ Banking Group	10	Cyprus Popular Bk	10	Provincial Trust Ltd	12
Associates Cap Corp	11	Duncan Lawrie	10	R. Raphael & Sons	10
Authority & Co Ltd	10½	E. T. Trust	12	Roxburghe G'rantee	11½
Banco de Bilbao	10	Equator'l Tst C'p plc	11	Royal Bk of Scotland	10
Bank Hapoalim	10	Exeter Trust Ltd	10½	Royal Trust Bank	10
Bank Leumi (UK)	10	Financial & Gen. Sec.	10	Standard Chartered	10
Bank Credit & Comm	10½	First Nat. Fin. Corp	11½	Trustee Savings Bank	10
Bank of Cyprus	10	First Nat. Sec. Ltd	11½	UDT Mortgage Exp.	¶12.25
Bank of Ireland	10	● Robert Fleming & Co	10	United Bk of Kuwait	10
Bank of India	10½	Robert Fraser & Ptrs	11½	United Mizrahi Bank	10
Bank of Scotland	10	Grindlays Bank	‡10	Westpac B'nking Corp	10
Banque Belge Ltd	10	● Guinness Mahon	10	Whiteaway Laidlaw	10½
Barclays Bank	10	HFC Trust & Savings	10	Yorkshire Bank	10
Benchmark Tst Ltd	10	● Hambro Bank	10		
Beneficial Trust Ltd	11½	Heritable & Gen. Tst	10		
Berliner Bank AG	10	● Hill Samuel	§10		
Brit. Bk. of Mid. East	10	C. Hoare & Co	10		
Brown Shipley	10	Hongkong & Shangh'	10		
Business Mortgages Tst.	10	Lloyds Bank	10		
CL Bank Nederland	10	Mase Westpac Ltd	10		
Canada Permanent	10	Meghraj & Sons Ltd	10		
Cayzer Ltd	10	Midland Bank	10		

● Members of the Accepting Houses Committee. * 7-day deposits 5.35%. Savewise 8.05%. Top Tier—£2,500+ at 3 months' notice 9.38%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 5¾% gross. ¶ Mortgage base rate. § Demand deposit 5.35%. Mortgage 12¼%.

FT CROSSWORD PUZZLE No. 6,284

QUARK



ACROSS

1 Tangled reel did, going round lake. What a rigmarole! (6-2-3)
7 Prohibit "soap"? (3)
9 Signifies money (5)
10 Price hint—there'll be a change relating to kidneys (9)
11 Student hoping for some letters? (9)
12 Audience clatter hides the applause (5)
13 Traveller who's something of a wheeler-dealer? (7)
15 Legendary Range Rover? (4)
18 Spilt soup at work (4)
20 Scottish town in the voting provides the earners (7)
23 Expression of disapproval before the instructor (5)
24 The concern of one who's cultivated? (9)
26 Dog the embarrassed compiler? (3, 6)
27 Short jacket to send abroad (5)
28 This wire is in a muddle (3)
29 To support the firm he reduces the useless branches (4,7)

DOWN

1 Drink with an unusual kick (3, 5)
2 Not a lively idea—one with no chance . . . (4, 4)
3 . . . must be this (5)
4 Man involved with rite could be here (7)
5 Hit in a casual way, yet with speed (7)
6 In good time the flier's home is taken seriously (9)
7 Courage left after drinking? (6)
8 Declaim crazy ire, etc. (6)
14 Tense, thereby showing mistakes (9)
16 Press reporting deliveries in prison (8)
17 Last out, gettting the bird? An untidy woman (8)
19 Shake rattles to cause one to jump (7)
20 Sub for a star? (7)
21 Vermin climbing over central heating in the laundry! (6)
22 Something falling with dull thud could be so described (6)
25 Repel rising swelling (5)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

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هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

[illegible]

INSURANCES

[illegible]

FT UNIT TRUST INFORMATION SERVICE

M & G Group
Three Quays, Tower Hill, EC3R 6BQ 01-626 4588

Amer Bond (Acc)	214.2	225.0	+2.1	—
Amer Rec Bond (Acc)	275.1	289.0	+3.4	—
Amer Smlr Co Bd (Acc)	119.7	125.8	+0.8	—
Australasian Bd (Acc)	167.1	175.5	+1.7	—
Commodity Bond (Acc)	173.3	182.0	+0.2	—
Deposit Bond (Acc)	221.6	232.8	—	—
Equity Bond (Acc)	638.6	670.6	-2.6	—
Equity Bond Bonus	269.9	283.5	-1.1	—
European Bond (Acc)	179.1	188.1	+0.6	—
Extra Yld Bd (Acc)	356.7	374.6	-2.1	—
Far Eastern Bond (Acc)	146.0	153.4	+1.6	—
Gilt Bond (Acc)	265.4	278.8	+1.2	—
Gold Bond (Acc)	130.6	137.2	+1.5	—
High Yield Bond (Acc)	240.8	252.9	-0.6	5.32
Index-Linked GiltBd(Acc)	125.9	132.2	+0.1	—
Internl Bond (Acc)	392.2	411.9	+2.8	—
Internl Inc Bond (Acc)	127.6	134.1	+0.7	—
Japan Bond (Acc)	207.1	217.5	+2.4	—
Japan Smaller Co (Acc)	146.3	153.7	+0.3	—
Managed Bond (Acc)	473.1	496.9	+0.1	—
Property Bond (Acc)	285.5	299.9	—	—
Recovery Bond (Acc)	335.7	352.6	-3.0	—

Pensions Funds

American (Cap)	329.2	346.7	+1.6	—
American (Acc)	456.6	479.5	+2.1	—
Building Soc (Cap)	93.5	98.5	+0.1	—
Building Soc (Acc)	129.7	136.3	+0.1	—
Deposit (Cap)	153.6	161.4	—	—
Deposit (Acc)	213.1	223.8	—	—
European (Cap)	136.6	143.6	+1.2	—
European (Acc)	189.5	199.1	+1.6	—
Equity (Cap)	388.6	408.1	-1.3	—
Equity (Acc)	538.5	565.5	-1.9	—
Gilt (Cap)	248.2	260.7	+0.1	—
Gilt (Acc)	344.3	361.6	+0.1	—
Gold (Cap)	91.6	96.2	+1.0	—
Gold (Acc)	127.0	133.5	+1.5	—
Index-Linked (Cap)	95.8	100.7	—	—
Index-Lnkd Gilt (Acc)	132.9	139.7	+0.1	—
International (Cap)	107.2	112.6	+0.8	—
International (Acc)	148.6	156.2	+1.2	—
Intl Inc (Cap)	105.0	110.3	+0.5	—
Intl Inc (Acc)	145.6	153.0	+0.6	—
Japan (Cap)	128.3	134.9	+0.7	—
Japan (Acc)	178.0	187.0	+0.9	—
Managed (Cap)	300.7	315.9	+0.4	—
Managed (Acc)	417.1	438.1	+0.5	—
PPP Fund (Cap)	289.9	304.5	+0.6	—
PPP Fund (Acc)	402.0	422.2	+2.3	—
Pacific (Cap)	246.7	259.1	+3.3	—
Pacific (Acc)	342.1	359.4	[illegible]	—
Property (Cap)	132.4	139.1	—	—
Property (Acc)	183.6	192.9	[illegible]	—
Recovery (Cap)	182.7	191.9	-1.6	—
Recovery(Acc)	253.4	266.1	-2.2	—
UK Income (Cap)	106.2	111.6	+0.2	—

NM Schroder Life Assurance Ltd
Enterprise House, Portsmouth 0705 827733

American	248.0	261.0	+0.5	—
Australian	157.6	165.9	-0.2	—
CCM Vanguard Mngd	388.5	408.9	-1.3	—
Equity	835.0	878.9	-0.1	—
European	312.7	329.1	+0.3	—
Far Eastern Growth	124.5	131.0	-1.6	—
Fixed Interest	333.1	350.6	+0.2	—
Gold	102.5	107.8	—	—
Income Accum	415.5	437.3	-1.2	—
International	260.2	273.8	-0.5	—
Japan Smllr Co's	211.6	222.7	+0.3	—
Managed	421.8	444.0	—	—
Property	286.0	301.0	—	—
Residential Property	106.8	112.4	—	—
Singapore & Malaysian	135.9	143.0	+0.9	—
Smaller Companies	362.7	381.7	+0.9	—
Tokyo	349.7	368.1	+0.4	—
UK Equity	356.4	375.1	-1.6	—
American Pension	273.2	287.5	+0.4	—
Australian Pension	195.2	205.4	—	—
CCM Vanguard Pension	161.4	169.8	-0.4	—
Equity Pension	583.4	614.1	-1.9	—
European Pension	233.3	245.5	+0.4	—
Far Eastern Growth Pen	137.0	144.2	-2.4	—
Fixed Interest Pension	857.6	902.7	+0.1	—
Global Mngd Pension	137.3	144.5	-0.1	—
Gold Pension	112.0	117.9	—	—
Income Acc Pension	212.4	223.5	-0.8	—
International Pension	169.3	178.2	-0.3	—
Japan Smllr Co's Pen	265.8	279.7	+0.4	—
Managed Pension	1194.5	1257.3	-2.8	—
Property Pension	267.2	281.2	—	—
Residntl. Prop Pen	111.7	117.5	—	—
Singapore & Malay. Pen	153.8	161.9	+2.0	—
Smaller Cos Pension	175.1	184.3	+0.7	—
Special Exempt	307.7	323.8	+0.3	—
Tokyo Pension	406.4	427.8	+0.4	—
UK Equity Pension	199.5	210.0	-1.1	—

Prices: Life Series 4 Acc; Pension Series C Acc March 20

National Mutual Life
5 Bow Churchyard, London EC4M 9DH 01-236 1566

Managed Fund	187.5	197.4	—	—
Managed Prospect Fund	147.7	155.5	—	—
UK Equity Fd	219.6	231.2	—	—
Fixed Interest	143.4	151.0	—	—
Pacific	179.9	189.4	—	—
North American	117.7	123.9	—	—
Pens. Managed	218.8	230.4	—	—
Pens. UK Equity	260.5	274.3	—	—
Pens. Overseas Equity	295.3	310.9	—	—
Pens. Property	116.7	122.9	—	—
Pens. Fixed Interest	156.4	164.7	—	—
Pens. Index Linked	122.9	129.4	—	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

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FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
1 Nov	1 May	Funding 6½pc 85-87	99½	25.9	6.51	8.60
12Dec	12Jne	Treas. 10pc 1987	100¼	18.12	9.99	9.23
14Jan	14Jly	Treas 3pc 1987	98½	8.12	3.04	7.02
3May	3Nov	Treas. 12pc 1987	101¾	29.9	11.79	8.87
26 Jul	26 Jan	Treas 7¾pc 1985-88‡‡	99¼	22.12	7.80	8.59
10Nov	10May	Exch 10½pc '88	102½	6.10	10.30	8.69
14Dec	14Jne	Treas 9¾pc Cv '88	101¼	18.12	9.64	8.70
1Jan	1Jul	Transport 3pc '78-88	95½	25.11	3.14	6.73
25 Apr	25 Oct	Treas. 9½pc '88	101¼xd	18.9	9.39	8.68
22 Aug	22 Feb	Treas 11½pc 1989	104½	16.1	10.97	8.69
18 Oct	18 Apr	Treas 9½pc Cnv 1989	101½xd	11.9	9.35	8.62
15Nov	15May	Treas 3pc 1989	92½	9.10	3.24	6.71
14Dec	14Jun	Treas 10½pc 1989	103½	18.12	10.15	8.73
1Feb	1Aug	Exch.10pc 1989	102½	29.12	9.74	8.73
29 Mar	29 Sep	Exch 11pc 1989	105xd	26.8	10.48	8.72
15 Apr	15 Oct	Treas 5pc 1986-89	94½xd	8.9	5.30	7.49
15 May	15 Nov	Exch 10½pcCv '89	107¼	9.10	9.52	7.03
15 Jul	15 Jan	Treas 13pc 1990‡‡	110¼	9.12	11.79	8.59
12 Aug	12 Feb	Exch 11pc 1990‡‡	105½	6.1	10.39	8.65
22 Sep	22 Mar	Exch. 12½pc 1990	109½xd	18.8	11.37	8.66
8 Nov	8 May	Treas. 3pc 1990	89½	2.10	3.35	6.76
15 Dec	15 Jan	Treas 8¼pc 1987-90‡‡	99¼	18.12	8.33	8.58
25 Apr	25 Oct	Treas. 10pcCv 1990	104xd	18.9	9.62	8.70
22 May	22 Nov	Exch 2½pc 1990	87¼	16.10	2.87	6.49
10 July	10 Jan	Treas 11½pc 1991	109½	4.12	10.71	8.67
5Oct	5Apr	Funding 5¾pc '87-91‡‡	93½xd	1.9	6.15	7.67
13 Nov	13 May	Treas. 3pc 1991	86½	—	3.47	6.80
12Jan	12July	Treas 10pc Cv '91	109½	8.12	9.14	7.40
25Apr	25Oct	Exch. 11pc 1991	108½xd	18.9	10.13	8.69
22Jly	22Jan	Treas 12¾pc 1992‡‡	115½	16.12	11.00	8.64
21Aug	21Feb	Treas 10pc 1992	105½	15.1	9.49	8.62

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

NOTES

LONDON SHARE SERVICE

CANADIANS

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—	♥Abbot Energy Corp.	21½p	—	—	—	—
—	♥Amer. Barrick Res.	17⅞	—	—	—	—
—	Armeno	81p	—	—	—	—
Fb My Ag Nv	Bk. Montreal ‖	16	24.11	$2.00	—	6.0
Ja Ap Jn Oc	Bk. Nova Scot.‖	912p	12.1	72c	—	3.8
Ap Jy Oc Ja	BCE ‖	19⅝	10.9	$2.40	—	5.9
May Nov.	♥Bow Valley‖	938p	15.12	10c	—	0.5
Ja Ap Jy Oc	♥Brascan‖	16½	20.10	88c	—	2.6
—	♥Breakwater Res.	486p	—	—	—	—
Fe My Au No	Can.Imp.Bk. $2	18⅛	12.1	$1.08	—	5.0
July Jan.	Can. Pacific ‖	11⅝	12.1	48c	—	2.0
July Jan	Do. 4pc Deb £100	42	10.11	4%	—	9.5
Jn.Sp.Dec.Mar	♥Echo Bay Mines	21⅞	—	20c	—	0.4
—	♥Granges Expl‖	620p	—	—	—	—
—	♥Gt Pacific Res.	18½p	—	—	—	—
Ja Ap Jy Oc	♥Gulf Canada‖	13½	26.3	52c	—	1.8
Ap Jy Oc Ja	♥Hawker Sid Can‖	13	15.11	96c	—	3.5
—	Henlys Group	680p	—	—	—	—
Mr Jn Sp Dc	Hudson's Bay ‖	13⅝	1.1	60c	—	2.2
Mr Je Se De	♥Imperial Oil‖	33⅝	26.11	s$1.60	—	2.3
Jan.Ag.J.D.	Inco‖	904pxd	23.2	US$0.20	—	1.4
—	♥Intl. Corona Res	18½	—	—	—	—
Fe My Au No	♥Inland Nat. Gas $1	644p	30.12	60c	—	4.5
—	♥Muscocho Expln.	250p	—	—	—	—
—	♥Ntnl Business Syst.‖	930p	—	—	—	—
June Dec	♥Rio Algom	11⅛	5.11	65c	—	2.8
Mr Je Se De	Royal Bk. Can. ‖	16	27.1	$2.00	—	6.0
Se De Mr Je	Seagram‖	47	14.2	US$1.00	—	1.5
F My Au No	Toronto-Dom. Bk.‖	14	22.9	84c	—	2.9
Ja Ap Jy Oc	♥Trans Can Pipe	18	1.12	$1.12	—	5.4
—	Varity Corp‖	150p	11.77	B—	—	—

BANKS, HP & LEASING

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Feb July	ANZ SA1	225	31.12	Q31c	2.4	5.9	♦
Aug. May	Algemene Fl.100	£153	19.8	Q27%	♦	5.5	♦

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS—Cont.

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

INSURANCES

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LONDON SHARE SERVICE

INSURANCES—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan	July	PWS Holdings 10p	307	9.2	φ9.25	2.9	4.2	11.5
—		Pearl Group 5p	348	—	8.8	—	3.6	—
Nov.	May	Prudential	919	29.9	†26.0	—	4.0	—
Nov.	May	Refuge 5p	487	29.9	15.75	—	4.7	—
Jan.	May	Royal	972	10.11	32.0	—	4.6	—
April	Oct.	Sedgwick Group 10p	325xd	9.3	♦12.0	1.7	5.2	13.9
May	Nov	Steel Burrill J. 10p	232	15.9	†7.0	2.1	4.2	15.5
Nov.	July	Stewart Wr. 20p	449	29.9	†11.0	2.1	3.5	18.2
Mar	Sept	Sturge Hldgs 20p	485xd	26.1	h6.0	2.5	1.9	29.2
Jan.	July	Sun Alliance	775	24.11	†17.5	—	3.2	—
June	Nov	Sun Life 5p	£10⅝	29.9	†23.74	—	3.2	—
April		♥Taisho M EDR	£49¾	25.3	φ010%	—	0.9	—
Fb My Au Nv		Torchmark $1.00	£29⅞	9.1	Q60c	—	2.0	—
Nov.	May	Trade Indemnity	308	29.9	‡13.25	—	1.5	—
Mr Ju Se De		Travelers $1.25	£31⅞	27.1	$2.28	—	4.6	—
Dec	June	USLIFE Corp. $1.0	£27⅝	5.11	Q$1.20	3.2	2.9	10.9
June	Nov	♦Und Friendly B 10p	595	13.10	†17.2	—	4.1	—
May	Nov	Willis Faber 12½p	424	29.9	†8.75	2.9	2.9	16.1
Mar	July	Windsor Secs. 10p	54	22.12	0.7	1.5	1.8	50.0

LEISURE

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
October		♦A & M Group 10p	13	11.8	0.4	2.0	4.3	16.3
Jan	July	A-R TV Pref. £1	76	22.12	5.95	48.1	11.2	—
May	Aug.	Anglia TV	303	23.2	φ11.25	♦	3.2	♦
—		♦Aspinall Hldgs. 10p	131	23.2	6.0	1.2	6.5	18.0
—		♦Avesco 1p	82	—	10.5	6.6	0.9	20.5
—		♦BCE Hldgs 5p	43	—	♦d1.0	3.0	3.3	14.3
July	Nov	Barr & W.A.T. 'A'	178	29.9	7.0	1.4	5.5	(17.0)
—		Boosey & Hawkes	175	4/84	—	—	—	—
—		♦Border T.V.	599xd	23.2	†φ12.5	3.2	5.9	14.9
June	Dec	Brent Walker 10p	419	27.10	4.0	2.7	1.3	32.5
Mar.	Nov.	Campari Int. 20p	167	13.10	1.0	—	0.8	—
Nov	May	Central ITV	591	29.9	12.5	2.0	3.0	23.2
Jan	July	Chrysalis	252	8.12	5.6	2.1	3.1	21.1
—		♦Cityvision 5p	56	—	—	—	—	—
—		♦Entertain Prod 5p	24	†/85	—	—	—	—
Jan.	July	Fairline Boats 10p	251	8.12	6.0	3.6	3.4	11.8
Apr.	Oct.	First Leisure £1	555	23.2	7.5	3.3	1.9	22.4
		GRA Group 5p	[illegible]					

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING—Continued

Dividends Paid		Stock	Price	Last xd
Jan	Sept	Tenpy Communications	68	10.11
May	Dec	♦Peters (Michael)	158	27.10
Apr.	Sept	Saatchi 10p	685xd	23.2
Oct	Apr	Do. 6¾pcCnvPrf£1	138	23.2
May	Dec	St Ives 10p	542	8.12
Mr Je Sp Dc		Scott Paper	£38	19.2
	May	Shorewood 2p	455	13.10
Feb	Oct	Smith (David S.) 20p	278	26.1
Dec	July	Smurfit (Jeffer.)	458	10.11
—		♦Space Planning Serv	81	—
Jan.	July	Sterling Publishing 5	91	—
Jan.	July	♦TMD Advertising	136	22.12
—		♦Thorpac Group 2½p	78	—
March	Oct.	♦Trade Promotion 10p	266xd	9.3
July	Dec	Usher Walker 10p	243	12.5
	July	Vadia Pollen Int 5p	197	12.1
October		WCRS Grp 10p	635	24.11
Jan	July	WPP Group 10p	937	10.11
—		Wace Group 20p	112	5/81
Dec	July	Waddington (J.)	343	24.11
Nov	April	Watmoughs	375	29.9
—		♦Wiley Mackay-Lock10p	185	—
Jan.	June	♦Yellowhammer 5p	176	22.12

[illegible]

PROPERTY

Dividends Paid		Stock	Price	Last xd
Jan	July	Allied London 10p	185	10.11
Mar	Oct	Apex. Props. 10p	128	10.2
		Arlington Sec 10p	248	27.10
	July	Asda Property 20p	415	2.6
—		♦Austmark Int	15	—
—		Bakerlian&Smart10p	222	—
	June	Belgrave Hldgs	192	10.11
—		Berkeley & Hay Hill	224	—
Nov.	July	Bilton (Percy)	384	13.10
Dec.	Aug.	Bradford Prop.	518	10.11

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Cont.

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

FINANCE, LAND—Cont.

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Continued

[illegible]

Tins

[illegible]

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
	—	Anglo-Dominion	86	—	—	—	—
	—	♥Colby Res Corp	31½	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	62	12.1	Q40c	4.4	9.3
	—	♥Ennex Int. Ir10p	43	—	—	—	—
	—	Greenwich Res	226	—	—	—	—
	—	♥Highwood Res	193	—	—	—	—
Fb Jne Ag Nv		Homestake Mining $1	£17½	29.1	Q20c	—	0.7
—		♥McFinley Red Lake	382	—	—	—	—
	—	♥Musto Explorations	138	—	—	—	—
	—	♥New Sabina Res C$1	71½	—	—	—	—
—		Northgate C$1	394	9/77	—	—	—
Jan.	July	RTZ	722	27.10	22.0	2.4	4.3
Jan	July	Do. 9¾pcLn '95-2000	£150¼	27.10	Q9¾%	15.5	16.4

THIRD MARKET

Dividends Paid	Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
—	Abelscot Group 10p	222	—	3.2	—	2.0	—
—	Aberdeen Am Pet 10p	34	—	—	—	—	—
	Allied Ins. Brokers	112	—	13.5	2.5	4.4	13.0
—	Catalyst Comm. 5p	47	—	—	—	—	—
—	Corton Beach 10p	65	—	—	—	—	32.9
—	Edenspring Investment	125	—	—	—	—	74.1
—	Eglinton Oil Ir.5p	38	—	—	—	—	—
—	Do. Warrants	21	—	—	—	—	—
—	Publishing Hldgs.5p	24	—	—	—	—	13.9
—	Theme Holdings	50	—	—	—	—	25.4
—	Unit Group	115	—	f4.6	2.5	5.6	(8.2)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

[illegible]

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	74	.....	Fin. 13% 97/02	£105¼	.....
Craig & Rose £1	£25¼	.....	Arnotts	340	.....
Finlay Pkg. 5p	68	.....	CPI Hldgs	73	+3
Holt (Jos) 25p	980	+5	Carroll Inds.	131	−2
IoM Stm. £1	93	+5	Dublin Gas	11	.....
			Hall (R. & H.)	108	.....
IRISH			Heiton Hldgs.	32	.....
Fund 11¼% 1988	£98	.....	Irish Ropes	180	.....
Nat. 9¾% 84/89	£93¼	.....	Unidare	300	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	35	NEI	8
Amstrad	16	Nat West Bk	55
BAT	47	P & O Dfd	55
BOC Grp	42	Plessey	20
BSR	12	Polly Peck	20
BTR	30	Racal Elect	20
Babcock	19	RHM	30
Barclays	47	Rank Org Ord	55
Beecham	48	Reed Intnl	42
Blue Circle	62	STC	20
Boots	25	Sears	12
Bowaters	37	TI	55
Brit Aerospace	58	TSB	8
Brit. Telecom	20	Tesco	42
Burton Ord	23	Thorn EMI	50
Cadburys	22	Trust Houses	20
Charter Cons.	30	Turner Newall	24
Comm Union	29	Unilever	150
Courtaulds	35	Vickers	55
FNFC	20	Wellcome	50
Gen Accident	80	**Property**	
GEC	18	Brit Land	17
Glaxo	110	Land Securities	50
Grand Met.	40	MEPC	32
GUS 'A'	100	Peachey	30
Guardian	85	**Oils**	
GKN	30	BOM	3½
Hanson Tst.	15	Brit Petroleum	60
Hawker Sidd	50	Burmah Oil	38
ICI	80	Charterhall	4
Jaguar	52	Premier	4
Ladbroke	40	Shell	75
Legal & Gen.	25	Tricentrol	11
Lex Service	35	Ultramar	17
Lloyds Bank	48	**Mines**	
Lucas Inds.	55	Cons Gold	65
Marks & Spencer	18	Lonrho	24
Midland Bk	55	Rio T Zinc	65
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page.

CONTRACTS

Managing Pakistan's energy

In co-operation with the EB GROUP of Norway, ASEA TRANSMISSION, of Sweden has recived an order for the supply of a complete energy management system (EMS) from the Water and Power Developement Administration (WAPDA), the state-owned utility in Pakistan. The value of the contract is about SKr 300m (£30m), with Asea's share being more than SKr 100m (£10). The contract is for the supply, installation and commissioning of a national energy management system covering Pakistan's power network from Hyberabad in the south to Islamabad in the north. Asea's delieveries include two Sindac control centres, the first of their kind in Pakistan. From these control centres, WAPDA will be able to control and supervise its high-voltage power network for voltages between 66 kV and 500 kV. *The control centre* in Islamabad will act as the national control centre and will be equipped with a Sindac 5 system. The other conrtol centre, to be located in Jamshoro, in the southern part of the country, will be the first in a planned series of regional control centres. In the first stage, the two control centres will supervise and control 36 power stations and substations. The EMS is scheduled to enter operation in 1989.

Delieveries will also include a 1.500 km-long radio link with 43 stations for 60 telephone and data channels from EB NERA, Bergen. EB Telecom, Asker, Norway, will be repsonsible for the supply of carrier-frequency equipment for telephone and data communication on power lines. A number of telephone exchanges and a telex network *are also included in the* deliveries.

£11m order for Airbus landing gear

DOWTY ROTOL, at Staverton, Gloucester, has received a further substantial order for Airbus A320 landing gear. Worth over £11m the order from British Aerospace coincides with the roll-out and first flight of the prototype A320. The total number of landing gears so far ordered is over 100 aircraft sets and Airbus Industrie has already announced its intention to increase the *production rate to* eight sets per month by 1990.

Automated cargo control

BRITISH TELECOM'S APPLIED TECHNOLOGY (BTAT) computer services division is to develop and supply an automated cargo control system for airlines, agents and H. M. Customs based at Gatwick, Heathrow and Manchester Airports. The system, worth about £10m over the next five years, will be known as air cargo processing for the '90s (ACP90). It will run on IBM compatible microframes and will be developed from the current ACP80 system, also produced by BTAT. In addition to providing automated customs entry and clearance facilities through Customs DEPS computers (which BTAT runs for Customs), ACP90 will enable users to control and manage freight inventories and send messages to other users.

Exporting air cleaners to Norway

MEDION has signed a five-year export contract worth en estimated £4.5m. The client is a Norwegian company, Trigonen A/S, which has been developing the ionizer and air cleaner market for three years. Foremost among the products selected are the Micro Air Processor and the Macro Air Processor — a four-way air cleaner/deodoriser/ionizer.

★

NATIONAL BUSINESS SYSTEMS' applied holographics unit in Fort Wayne, Indiana, has been awarded a two-year contract as the principal supplier of dual-channel holograms to the Tonka Corporation. NBS estimates that delieveries to Tonka will exceed US$5m (£3.2m) in 1987 and are forecast to increase the following year.

★

ASTRA HOLDINGS. international pyrotechnics and defence equipment group, has won, through its Canadian subsidiary Astra Pyrotechnics Canada, US defence orders worth C$2.95m (£1.4m). The orders are for a range of marine flares and markers.

★

CROWN HOUSE received orders worth £3m for Dema glassware *following the* Frankfurt International Spring Fair. At the same time, George Butler Silverware and Edinburgh crystal was ordered by the Karstadt Group of stores.

Testing Jaguar engines

SCHENCK, Bicester, has an order from Jaguar Cars valued at over £8m for research and development engine test facilities in an advanced engineering centre at Whitley. This follows a £7.5m order last year for production engine-testing facilities at the Radford works, and takes Jaguar's investment in Schenck systems to over £15m.

★

MEGGITT ENGINEERING, original *founder* company of Meggitt Holdings, has won a £1.03m contract for the supply of natural gas filtration equipment over a one-year period to the National Iranian Gas Corporation. The gas filtration equipment will be used for a major expansion of the Corporation's gas supply network. Meggitt Engineering's manufacturing facilities at its Bournemouth plant will be increased to meet this order.

★

W. H. ALLEN, a business unit of NEI — A.P.E., has obtained orders, together worth over £1m for back-pressure steam turbine driven alternator sets for cane sugr factories. One of the orders was placed by Umfolozi Sugar Planters for a 10,000 kW set for its factory near Mtubatuba, north of Durban, and the second is for an 8,700 kW set required by Triangle Sugar for its factory in Zimbabwe. NEI — A.P.E. is *part of Northern Engineering* Industries.

★

C. W. PITTARD. part of the Pittard Group, Yeovil has won a US$500,000 (£316,455) contract from Sojusphina, the Soviet State buying organisation to supply dress glove leather to Alma Ata, which is near the Chinese border. The order is the twelfth annual contract awarded by the USSR to Pittard bringing the total amount of sales to the USSR to US$6m (£3.79m).

Egyptian tank factory orders for Britain

NOBLE LUND, a specialist heavymachine *tools* manufacturer, has won a £3.7m contract to supply equipment for Egypt's proposed new tank factory at Abu Zaabal, north of Cairo. The contract is with Egypt's Ministry of Military Production under a £150m credit, lead-managed by Lloyds Merchant Bank. Egypt is proposing to assemble and eventually build its own battle tanks at the factory under construction near Cairo. A number of British companies are involved in the project.

Dorman Long Overseas is providing £32m in structural steel components for factory 200 which will initially service and maintain Egypt's armoured vehicles. The Egyptian Army's National Service Projects Organisation (NSPO) *is responsible for* the civil works.

Details have also emerged of a large contract Plessey has won for the supply of an electronics defence system for Egypt under £150m credit. The value of the contract is believed to be in excess of £20m. Plessey is also supplying £8m of military communications equipment as a follow-on to an existing contract.

★

Irrigation in Cyprus

Reading-based SPP PROJECTS has a contract worth over £3.9m for pumping and associated mechanical and electrical equipment for an irrigation scheme in Cyprus. The contract involves construction of 28 pumping stations forming part of the Kokkinokhoria scheme. This forms part of Phase I of the Southern Conveyor Project designed to bring water from the Western Mountains to the eastern portion of the island.

★

An order for aircraft galleys has been placed by Pan Am with C. F. TAYLOR (METALWORKERS), a subsidiary of the EIS Group. It cobers the design and supply of lightweight galleys for Pan Am's new fleet of 12 Airbus 310s. Taylor has also won an order to supply galleys to Cathay Pacific for their four new Boeing 747-300s and 400s. Total value of both orders is over £4m.

DIARY DATES

Parliament

PARLIAMENT TODAY

Commons: Conclusion of debate on the Budget statement.

Lords: Banking Bill, committee. Motions on Civil Defence Grant orders.

Select committees: Home Affairs: Sub Committee on Race Relations and Immigration—subject: Passport control. Witnesses: HM Customs and Excise and British Rail (Room 6, 4.15 pm). Social Services—subject: problems associated with AIDS. Witness: Dr Jonathan Mann, World Health Organisation (*Room 21, 7.30 pm*).

TOMORROW

Commons: Consolidated Fund No 2 Bill.

Lords: Petroleum Bill, committee. Parliamentary and Health Service Commissioners Bill, second reading. Unstarred question on the availability of merchant shipping in the event of crisis and war. Unstarred question on the development of a safer whooping cough vaccine.

Select committees: *Parliamentary* Commissioner for Administration — subject: reports of the Health Service Commissioner for 1984-85 and of the Parliamentary Commissioner for 1986. Witnesses: South West Thames Regional Health Authority; Mr Anthony Barrowclough QC and Mr Donald Allen (Room 5, 4.30 pm). Defence—implications for the UK of ballistic missile defence. Witnesses Defence Ministry and Foreign and Commonwealth Office officials (Room 16, 4.50 pm).

WEDNESDAY

Commons: Motions on Rate Support Grant Report (England) 1987-88, and supplementary reports, followed by motions on Welsh rate support grant reports.

Lords: Consolidated Fund Bill, all stages. Debate on relations between the UK and the US and Russia. Takeovers and Mergers (Employee Protection) Bill, second reading.

Select committees: Welsh Affairs—subject: the condition and repair of privately owned housing. Witnesses: Cardiff City Council; Colwyn Borough Council (Room 18, 10.30 am). Energy—subject: the effect of oil and gas prices on North Sea activity. Witnesses: Association of British Independent Oil Exploration Companies; BP, and Esso (Room 8, 10.45 am). Trade and Industry—subject: motor components industry. Witnesses: British Steel Corporation and United Engineering Steel (Room 15, 10.45 am). Defence—subject: implications for the *UK of* ballistic missile defence. Witness: British Aerospace (Room 16, noon). Public Accounts — subject: measurement of farming incomes; intervention stockholding in the UK. Witnesses: Sir Michael Franklyn, Ministry of Agriculture; *Mr G. Stapleton*, Intervention Board for Agricultural Produce (Room 16, 4.15 pm). Social Services—subject: problems associated with AIDS. Witnesses: Dr Harold Gunson, Director, North West Regional Blood Transfusion Service; Dr *Richard Lane*, Director, Blood Products Laboratory; Professor Ian Kennedy, Professor of Law and Ethics, King's College, London (Room 21, 4.15 pm). Environment — subject: pollution of rivers and estuaries. Witnesses: Friends of the Earth and Greenpeace (Room 20, 4.30 pm). Transport—subject: decline of the UK registered merchant fleet. Witnesses: Transport Department *officials* (Room 17, 4.30 pm). Treasury and Civil Service—subject: the Budget. Witnesses: Treasury officials (Room 6, 4.45 pm).

THURSDAY

Commons: *Remaining stages* of the Immigration (Carriers Liability) Bill and the remaining stages of the Broadcasting Bill.

Lords: Animals (Scotland) Bill, consideration of Commons amendments. Motions on various defence orders, the Plugs and Sockets (Safety) Regulations, 1987, supplementary benefit regulations, and agricultural orders. Motion for approval on the Merchant Shipping Act (*Commencement No 11*) Order. Unstarred question on the privatisation of the Plant Breeding Institute and the National Seed Development Organisation.

Select committee: Treasury and Civil Service — subject: the Budget. Witness: Mr Robin Leigh-Pemberton, Governor of the Bank of England. (Room 8, 4.45 pm).

FRIDAY

Commons: Private members bills.

Finance

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—

Drayton Japan Tst., 11 Devonshire Sq., EC, 12.00

Temple Bar Inv. Tst., Waterman's Hall, 18 St. Mary at Hill, EC, 10.45

Yeoman Inv. Tst., 11 Devonshire Sq., EC, 12.30

BOARD MEETINGS—

Finals:

American Tst.

[illegible]

WEDNESDAY MARCH 25

COMPANY MEETINGS—

Colne Intnl., Hotel Russell, Russell Sq., WC, 10.30

Crest Nicholson, Ashley Park Hotel, Walton-on-Thames, Surrey, 12.00

Television South, The Brewery, Chiswell St., EC, 12.00

Heavitree Brew., Trood Lane, Matford, Exeter, 11.30

Miss World, Hilton Hotel, Park Lane, W.

[illegible]

United Newspapers

Interims:

Cooper (F.)

Lucas

Molins

Really Useful

Sanderson Murray and Elder

Sheldon Jones

Thorlux Lighting

DIVIDEND & INTEREST PAYMENTS—

Bullough 7.4p

Canadian Imperial Bk. of Commerce Fltg. Rate Dep. Nts. 2005 $202.75

Dura Mill 2.5p

EAB Finance NV Gtd. Fltg. Rate Nts. 1990 $160.26

Exchequer 12¼pc 1999 6⅛pc

FAI Insurance 3cts.

Halifax Building Soc. Fltg. Rate Ln. Nts. (Ser. A) £43.46

Halliburton 25cts.

[illegible]

THURSDAY MARCH 26

[illegible]

FRIDAY MARCH 27

[illegible]

SUNDAY MARCH 29

[illegible]

Trade fairs and exhibitions: UK

Current
International Cycle and Leisure Fair—CYCLEX (01-390 2211) (until March 24) — Olympia

March 24-26
International Food and Drink Exhibition (031-225 5486) — King's Hall, Belfast

March 24-27
Information Technology and Office Automation Exhibition and Conference—INFO (01-647 1001) — Olympia

April 2-5
British International Antiques Fair (021-780 4171) — NEC, Birmingham

April 8-9
Better Made in Britain 5: Clothing, Knitwear and Footwear; 6: Building Components and DIY (01-211 7153) — Kensington Exhibition Centre

April 14-16
International Trenchless Construction for Utilities—Conference and Exhibition (0923 778311) — Kensington Exhibition Centre

April 14-16
International Book Fair (01-940 6065) — Olympia

April 17-18
Cash and Carry Fashion Fair (01-727 1929) — Kensington Town Hall

April 24-26
Atari Computer Show (061-456 8835) — Novotel

April 26-May 4
London International Furniture Show (01-385 1200) — Earls Court

April 26-28
International Confectionery Market Exhibition — INTERCONFEX (01-661 4900) — NEC, Birmingham

April 27-30
Audio Visual Exhibition (01-688 7788) — Wembley Conference Centre

April 29-30
London Engineering Design Show (0895 58431) — Sandown Exhibition Centre

May 1-13
Northern Ideal Home Exhibition (0602 501202) — G-mex Centre, Manchester

Overseas

Current
International Spring Fair (01-248 7013) (until March 24) — Leipzig

March 25-29
International Spring Trade Fair (01-977 4551) — Vienna

April 1-4
Wire Tokyo '87 (07072 75641) — Tokyo

April 3-9
International Chemical and Petrochemical Industry Exhibition (01-486 1951) — Beijing

April 9-12
International Toy Fair—SPIEL (01-977 4551) — Vienna

April 16-18
International Electro-Optics and Laser Exhibition (01-940 3777) — Tokyo

April 22-28
International Computer & Office Automation Exhibiton—KIECO (01-439 0501) — Seoul

April 25-30
International Wire and Cable Production and Wire Products Exhibition—WIRE ASIA (06833 7755) — Beijing

Business and Management Conferences

March 26
Longman Seminars: EEC Deregulation in the airline industry (01-242 4111) — Hotel Inter-Continental, W1

March 31
NEDC/FT Conferences: Enterprise, success and jobs—company success (01-621 1355). — Queen Elizabeth II Conference Centre, SW1

April 1
The Institute for Fiscal Studies: The 1987 Budget (01-636 3784) — Park Court Hotel, W2

April 1
Longman Seminars: Merger accounting—financial reporting issues (01-242 4111) — Cavendish Conference Centre, W1

April 1
The Association of Corporate Treasurers: Modern financial instruments—their practical use (01-631 1991) — Hilton Hotel, W1

April 2-4
The Rural Life Conference—action with communities (01-636 4066) — Royal Agricultural College, Cirencester

April 6
International Business Communications: 6th annual television planning and buying seminar (01-236 4080) — Marriott Hotel, W8

April 8-9
FT Conferences: Technology in the securities market—the next five years (01-621 1355) — Hotel Inter-Continental, W1

April 9-10
Institute for International Research: Selling personal financial services within the new regulatory framework (01-434 0301) — Park Lane Hotel, W1

April 9-10
Frost and Sullivan: Project management for data processing operations (01-730 3438) — Sullivan House, SW1

April 9
CBI: EFTPOS—the payment card revolution (01-379 7400) — Centre Point, WC1

April 11
The Chartered Institute of Management Accountants: Going for growth (0234 272222) — Northampton

April 23-24
Yorkshire Conference Services: UK Budget tax (0423 879437) — Harrogate

April 24
CBI: Making and using sales forecasts (01-379 7400) — Centre Point, WC1

April 27
FT Conferences: The regulatory issues facing foreign banks in London (01-621 1355) — Barber Surgeons Hall

April 28
The Economist: The ageing population—the new growth market (*01-839 7000*) — Hilton Hotel, W1

April 29
NEDC/FT Conferences: Enterprise, success and jobs—people, the key to success (01-621 1355) — Queen Elizabeth II Conference

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

WORLD STOCK MARKETS

AUSTRIA

1986/87 High	Low	March 20	Price Sch
2,660	1,990	Credit'nst'lt pp	2,000
3,850	2,950	Goesser	3,035
16,000	12,700	Interunfall	13,000
21,750	8,000	Jungbunzlauer	8,550
2,475	1,925	Laenderbank	1,925
795	560	Perlmooser	695
211	140	Steyr Daimler	140
12,50	860	Veitscher Mag	905

BELGIUM/LUXEMBOURG

1986/87 High	Low	March 20	Price Frs.
3,600	2,390	B.B.L.	3,800
16,550	9,600	Banq. Gen. Lux	16,650
17,000	9,400	Banq. Int.A.Lux	14,800
14,500	8,250	Bekaert	12,200
6,450	2,640	Ciment CBR	5,200
195	120	Cockerill	135
8,465	1,662	Delhaize	5,210
6,410	3,680	EBES	5,410
2,700	1,660	Fabrique Nat	1,760
1,250	358	GB Innc. BM	[illegible]

NORWAY

		March 20	Price Kroner
229	151.5	Christiana Bank	198
191	148	Den Norske Cred	165
191	96	Elkem	95.5
197.5	131	Kosmos	145
196	120	Kvaerner	190
166.2	58	Norcem	124
260	175	Norsk Data	234
177	153	Norsk Hydro	174
477.5	394	Orkla-Borregaard	436
320	265	Storebrand	290

NOTES—Prices on this page are as quoted on the individual exchanges and are last traded prices. ¶ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Schillings.

CANADA

TORONTO
Closing prices March 20

MONTREAL
Closing prices March 20

OVER-THE-COUNTER
Nasdaq national market, Closing prices, March 20

Continued from Page 37

Indices

NEW YORK

CANADA

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Navistar	4,563,500	7¾	+ ⅜
Pan Am Corp	3,657,400	4⅛	—
LTV	2,946,300	3	+ ¼
ATT	2,829,100	24	+ ⅞
Oak Industs	2,446,600	1⅞	—
Amer Express	2,194,800	77⅝	−1½
Phillips Petrlm	2,183,600	15⅜	+ ⅜
IBM	2,175,100	148⅝	+1⅛
Wendy's	1,880,400	11¾	+1
Exxon	1,844,200	85⅞	+ ⅞

** Saturday March 14: Japan Nikkei (c). TSE (c).
Base value of all indices are 100 except Brussels SE—1,000, JSE Gold—255.7, JSE Industrials—264.3, and Australia, All Ordinary and Metals—500; NYSE All Common—50; Standard and Poors—10; and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

Closing prices, March 20

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33	20⅛	AAR s	.50	1.6	22	727	31½	31	31¼	+¼
37	21⅞	ADT	.92	2.6	20	336	36¼	35⅝	35⅝	−1
41½	23⅝	AFG	.12e	.3	11	1084	37⅝	36⅝	36⅝	−1½
40¼	16¾	AGS			22	882	37¼	36¾	37	+¼
15	6¾	AMCA				339	8⅝	8¼	8⅝	+¼
9⅝	4⅞	AM Intl				559	8¾	8⅝	8⅝	
62⅛	47¼	AMR			12	5033	56½	55¾	56¼	+¼
27½	24½	ANR pf	2.67	10.		10	26	26	26	+⅛
24¾	20½	ANR pf	2.12	8.7		141	24½	24⅜	24½	+⅛
12⅞	8	ARX s			14	896	11⅝	10⅞	11⅝	+½
49¾	28¾	ASA	2a	3.9		5383	u56⅝	49⅝	51⅝	+1⅞
17⅜	9¾	AVX		1.9		938	18⅞	15⅞	16⅞	+1
32¾	26½	AZP	2.72	8.5	11	852	32	31⅝	32	+⅛
63⅝	36⅛	AbtLb s	1	1.6	26	6349	u64	63⅛	63⅞	+1
34	25	AccoWd	.62	2.0	20	1101	31½	31⅛	31½	+⅛
14⅛	9	AcmeC	.40	3.1	24	714	13	12½	12⅞	+⅛
9	6⅛	AcmeE	.32b	4.1	27	23	7⅞	7⅞	7⅞	
23⅞	18⅝	AdaEx	3.42e	15.		305	22⅝	22	22⅝	+½
19½	11⅝	AdmM s	.24	1.2	15	256	19½	19¼	19½	+¼
21½	12⅞	AdvSys	.62t	3.0	16	167	21⅛	21	21	−⅛
31⅞	12⅞	AMD				4952	22	21	21¼	−¼
10⅛	5¼	Adobe				585	10	9¾	9⅞	
20½	13¾	Adob pf	1.84	9.2		66	20⅛	19⅞	20	−⅜
21⅞	16⅝	Adob pf	2.40	11.		30	21⅛	20⅞	21⅛	−¼
16⅜	11½	Advest	.12a	.9	11	789	13⅝	13⅛	13⅝	+½
68¾	53	AetnLf	2.76	4.1	11	3540	67¼	66¾	67	
54	51⅛	AetL pf	2.81e	5.4		39	51¾	51¾	51¾	−⅛

Continued on Page 37

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 36

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chng
25	13	vjWhPit				2270	14½	13½	13½	−1
41½	23¼	Whrlpl s1.10		2.8	15	4383	39⅞	38⅝	39⅞	+1⅛
35⅞	21	Whitehl			475	244	30¾	30½	30½	−⅛
35	23	Whittak .60		1.8	101	171	34¼	34⅛	34¼	+⅛
17¼	8⅝	Wilfred .12		1.4	12	57	8¾	8⅝	8⅝	
23¼	11⅞	WillcxG 15		.6	16	525	u23⅞	22⅝	23⅝	+¾
34¾	17⅝	Williams1.40		4.2		3448	34	32⅝	33⅛	−1⅛
7⅛	4¼	WilshrO				62	6⅝	6	6	−¼
17¾	15⅞	Winchl n				21	16⅝	16⅛	16⅛	−⅜
59	36¼	WinDix 1.80		3.7	19	630	48¾	47⅞	48¾	+1⅞
20¾	9	Winnbg .20		1.4	18	1714	14¼	13⅝	13⅞	−½
6⅝	3⅛	Winner				985	3½	3¼	3½	+⅜
10⅞	5⅞	WinterJ.16e		2.3	20	702	6⅞	6⅝	6⅞	+¼
60½	45⅞	WiscEn2.65		5.3	11	580	50¾	50⅛	50¾	+⅛
106	98	WisE pf8.90		8.8		z300	101⅛	101¼	101¼	−⅛
60¼	40¾	WiscPL3.04		6.1	12	207	50	49½	50	+½
63	44¼	WiscPS 3		6.0	12	189	49⅝	49	49⅝	+⅜
46⅞	31⅞	Witco s 1.12		2.5	16	479	45¾	45⅛	45½	+⅛
12¾	8⅞	WolvrW				727	10⅝	10½	10¾	+⅝
49¼	34½	Wlwth s1.12		2.2	15	5324	u50½	49⅛	50	+1½
140½	88½	Wolw pf2.20		1.6		4	u141	138⅞	141	+5¾
7¼	2	WrldAr				58	7⅛	7	7	
19¼	14⅝	WrldVl n				46	18⅞	17⅝	18⅛	+½
54	36⅞	Wrigly s1.04		2.0	20	222	51¾	50¾	51¾	+½
4	1⅝	Wurltzr				1120	2¼	2	2	−⅛
18	11	WyleLb .32		1.8	32	450	17½	17¼	17⅜	
25¾	17⅛	Wynns .60		2.6	14	376	23¼	21½	23¼	+2
X Y Z										
74½	46⅞	Xerox 3		4.0	19	4351	u74¾	73¼	74½	+1⅛
58¼	55	Xerox pf5.45		9.7		1012	56	55⅞	56	
28¾	21½	XTRA .64		2.5		287	25⅞	25⅛	25⅞	+⅜
20⅝	13½	Yorkin n			23	26	20⅛	20	20	−⅛
6	2¼	Zapata				1787	4	3⅝	3⅝	−¼
43⅞	20¾	Zayre s .52		1.1	10	4260	30½	29½	30⅛	−⅜
14¾	8⅝	Zemex .40		3.1	8	129	13¼	12⅞	12⅞	−⅜
28⅞	10⅞	ZenithE				990	24⅝	24¼	24⅝	+⅛
18¾	8	ZenLb s				3753	11⅝	11⅛	11½	
22	12⅞	Zero .36		1.9	20	283	19⅝	19	19¼	+⅜
51	33¾	Zurnln 1.32		2.6	20	187	u51½	50½	51⅝	+⅞
16⅞	8¼	Zweig n.10e		1.0		606	9¼	9½	9⅝	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices March 20

OVER-THE-COUNTER

Nasdaq national market, Closing prices March 20

Continued on Page 35

FOREIGN EXCHANGES

Lost for words and looking for inspiration

STERLING WAS at the centre of attention last week, rising to the highest level against the dollar for over four years. This was something of a relief to a foreign exchange market looking for inspiration, but the impact is likely to be limited.

By Friday the shine was beginning to wear off the pound, but there was no sign of any other currency moving into the spotlight. At some time the dollar will regain the market's interest, but at present it is restricted to a very narrow trading range.

The pound was in demand from overseas investors, particularly in Japan, where UK gilts were seen as an attractive high yielding hedge against large holdings of US Treasury bonds.

Sterling was strong ahead of Tuesday's UK Budget, and Mr Nigel Lawson, the Chancellor, did not disappoint the financial markets with his proposals. Caution, including a larger than expected reduction in the UK Public Sector Borrowing Requirement, underpinned the pound.

But by Friday the mood of euphoria was starting to evaporate, as dealers suspected the authorities had no wish to see sterling move any higher. Last year's fall in oil prices depressed the pound and provided the backdrop for a recovery in British industrial output, but North Sea 'crude prices have since recovered, and any excessive climb in the value of sterling threatens to choke off the economic recovery.

The attraction of the pound increased after last month's Paris currency accord by six of the world's leading industrial nations. Dealers suspected the Bank of England would be less unwilling to see sterling rise against the dollar than the West German Bundesbank to see the D-Mark advance or the Bank of Japan see the yen improve.

There may not be much mileage left in sterling however, which dealers suggesting the pound could struggle to hold on to the $1.60 level. It is also suspected the Bank of England and Bundesbank agreed at the Paris meeting on a range of DM 2.80 to DM 3.00 for sterling against the D-Mark. The pound appeared to meet official resistance around the DM 3.00 level earlier this month.

The dollar was almost entirely ignored last week. At one time the market would have waited anxiously for any revision in US Gross National Product growth, but now the figures are regarded as historic and of very little interest. There was virtually no reaction to Wednesday's downward revision to 1.1 per cent from 1.3 per cent in fourth quarter growth.

A test for the dollar may come with February's US trade figures at the end of the month, although it is possible tomorrow's durable goods orders will provide the key for the dollar to return to the centre of the stage.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
112	15.26	15.29	0.00	0.07
114	13.27	13.35	0.01	0.13
116	11.29	11.44	0.03	0.22
118	9.33	9.59	0.07	0.37
120	7.42	8.18	0.16	0.60
122	5.62	6.49	0.36	1.27
124	4.25	5.26	0.63	2.04
126	3.08	4.14	1.46	2.56

Estimated volume total, Calls 2,714 Puts 848
Previous day's open int: Calls 18,283 Puts 10,746

LIFFE US TREASURY BOND OPTIONS

Strike Price	Calls—Last June	Calls—Last Sept	Puts—Last June	Puts—Last Sept
92	8.60	8.08	0.00	0.16
94	6.60	6.24	0.00	0.32
96	4.63	4.52	0.03	0.60
98	3.11	3.30	0.15	1.38
100	1.45	2.24	0.49	2.32
102	0.46	1.35	1.50	3.43
104	0.15	0.61	3.19	5.05
106	0.04	0.35	5.08	6.43

Estimated volume total, Calls 25 Puts 9
Previous day's open int: Calls 290 Puts 247

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Apr	Puts-Last Mar	Puts-Last Apr
19000	12.20	16.76	0.00	0.26
19250	9.71	14.46	0.01	0.46
19500	7.26	12.26	0.06	0.76
19750	4.94	10.20	0.24	1.20
20000	2.95	8.31	0.75	1.81
20250	1.55	6.62	1.85	2.62
20500	0.58	5.15	3.38	3.65
20750	0.18	3.90	5.48	4.90

Estimated volume total, Calls 69 Puts 59
Previous day's open int: Calls 760 Puts 697

£ IN NEW YORK

Mar 20	Close	Previous Close
£ Spot	1.6040-1.6050	1.5970-1.5980
1 month	0.48-0.47 pm	0.47-0.46 pm
3 months	1.25-1.22 pm	1.22-1.20 pm
12 months	4.02-3.92 pm	4.03-3.93 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

		Mar. 20	Previous
8.30	am	72.0	72.5
9.00	am	72.1	72.4
10.00	am	72.0	72.1
11.00	am	72.1	72.2
Noon		72.0	72.2
1.00	pm	72.0	72.2
2.00	pm	72.1	72.2
3.00	pm	72.1	72.3
4.00	pm	72.2	72.3

CURRENCY MOVEMENTS

March 20	Bank of England Index	Morgan Guaranty Changes %
Sterling	72.2	−21.5
U.S. Dollar	103.1	−4.3
Canadian Dollar	79.6	−8.8
Austrian Schilling	138.4	+10.4
Belgian Franc	100.2	−4.3
Danish Krone	93.3	+3.8
Deutsche Mark	147.2	+21.6
Swiss Franc	171.3	+21.4
Guilder	134.6	+14.1
French Franc	71.8	−12.7
Lira	48.2	−16.7
Yen	211.2	+57.5

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu March 20	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0083	+1.30	+0.90	± 1.5344
Danish Krone	7.85212	7.81211	−0.51	−0.91	± 1.6404
German D-Mark	2.05853	2.07594	+0.85	+0.45	± 1.0981
French Franc	6.90403	6.90921	+0.08	−0.32	± 1.3674
Dutch Guilder	2.31943	2.34539	+1.12	+0.72	± 1.5012
Irish Punt	0.768411	0.776962	+1.11	+0.71	± 1.6684
Italian Lira	1483.58	1476.50	−0.48	−0.48	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

Mar. 20	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.602	2.938	243.0	9.780	2.463	3.318	2089.	2.097	60.80
$	0.624	1.	1.834	151.7	6.105	1.537	2.071	1304.	1.309	37.95
DM	0.340	0.545	1.	82.72	3.329	0.838	1.129	711.1	0.714	20.70
YEN	4.115	6.593	12.09	1000.	40.25	10.13	13.65	8597.	8.628	250.2
F Fr.	1.022	1.638	3.004	248.5	10	2.518	3.392	2136.	2.144	62.17
S Fr.	0.406	0.651	1.193	98.68	3.972	1.	1.347	848.3	0.851	24.69
H Fl.	0.301	0.483	0.885	73.25	2.948	0.742	1.	629.7	0.632	18.33
Lira	0.479	0.767	1.406	116.3	4.682	1.179	1.588	1000.	1.004	29.10
C $	0.477	0.764	1.401	115.9	4.665	1.175	1.582	996.4	1.	29.00
B Fr.	1.645	2.635	4.831	399.7	16.09	4.050	5.456	3436.	3.448	100.

Yen per 1,000: French Fr per 10: Lira per 1,000; Belgian Fr per 100.

EURO-CURRENCY INTEREST RATES

Mar. 20	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY RATES

OTHER CURRENCIES

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
Swiss Fr.	2.4625	2.4508	2.4286	2.3985	2.3411
Yen	243.00	241.87	239.79	236.94	231.59

POUND SPOT—FORWARD AGAINST THE POUND

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.10-38.20.

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

LONDON

CHICAGO

CHICAGO 2

CURRENCY FUTURES

Estimated volume 4 (18)
Previous day's open int 282 (284)

MONEY MARKETS

Strangely out of tune

ONE OR TWO sections of London's financial community seemed strangely out of tune with the Bank of England's attitude towards interest rates last week.

UK clearing bank base lending rate 10 per cent since March 18-19

Since the suspension of a regular Bank of England Minimum Lending Rate the central bank has been at pains to restrict movements in market related bank base rates. This means that at times of pessimism the authorities have limited any surge in rates, but at times of euphoria the Bank of England is equally careful to prevent market enthusiasm running away with itself.

When the Chancellor announced a PSBR figure of £4bn for the next financial year in his Budget statement this appeared to give room for cuts in UK interest rates. The PSBR target was at least £1bn lower than forecast in the City and followed an encouraging PSBR repayment of £300m for February, announced on the same day as the Budget.

Immediate cuts of 1 per cent or perhaps 1½ per cent in base rates were suddenly looked for, but the cash money market at least was not surprised when the Bank of England allowed only ½ per cent.

This cautious approach was very much in line with the attitude the central bank has taken recently. In spite of large credit shortages, giving the authorities ample opportunity, there were no hints of rate cuts before the Budget.

FT LONDON INTERBANK FIXING

(11.00 a.m. Mar. 20) 3 months U.S. dollars		6 months U.S. dollars	
bid 6 7/16	offer 6 9/16	bid 6 ½	offer 6 ⅝

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Mar. 20	Mar. 13		Mar. 20	Mar. 13
Bills on offer	£100m	£100m	Top accepted rate of discount	9.1250%	9.3657%
Total of applications	£544m	£507.5m	Average rate of discount	9.1104%	9.2935%

WEEKLY CHANGE IN WORLD INTEREST RATES

MONEY RATES

NEW YORK (4 p.m.)

		Treasury Bills and Bonds			
Prime rate	7½	One month	5.31	Three year	6.51
Broker loan rate	7¼-7½	Two month	5.44	Four year	6.70
Fed. funds	6⅛	Three month	5.67	Five year	6.78
Fed funds at intervention	6⅛	Six month	5.79	Seven year	7.02
		One year	5.95	10 year	7.21
		Two year	6.39	30 year	7.52

Mar. 20	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.75-3.85	3.90-4.00	3.90-4.00	3.90-4.05	3.90-4.05	5.0

LONDON MONEY RATES